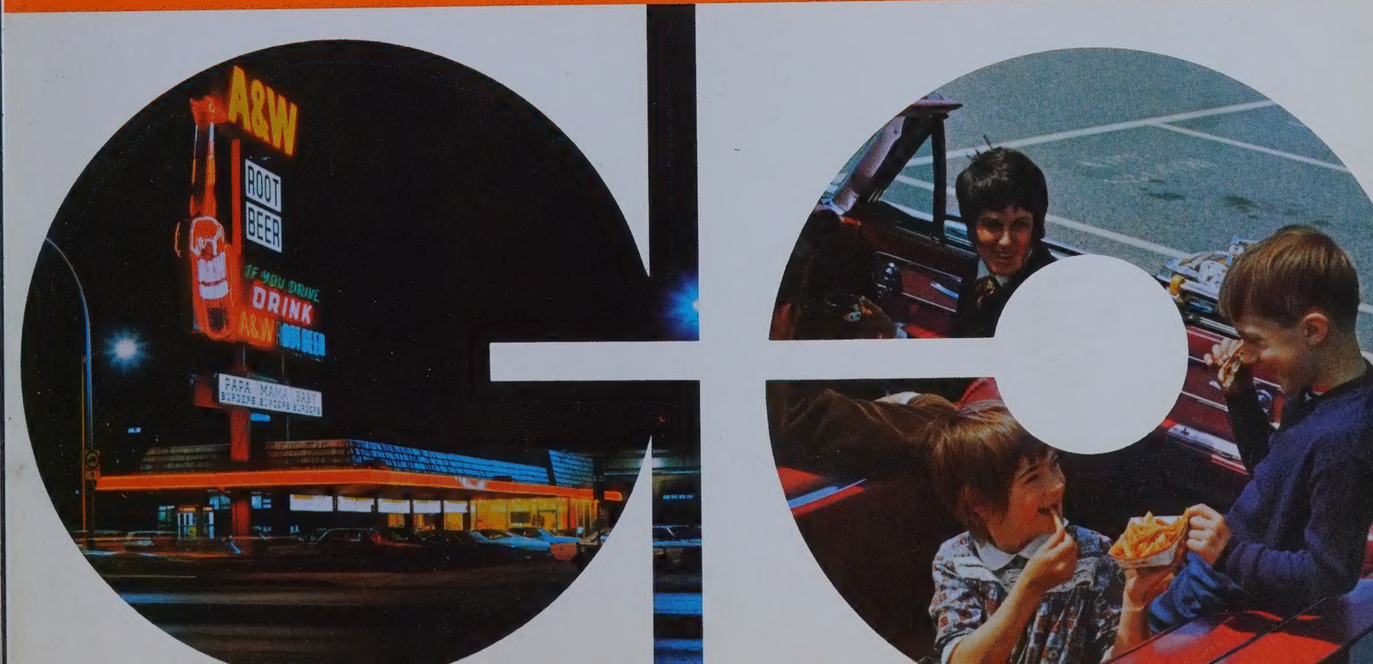
# CONTROLLED FOODS INTERNATIONAL LTD. ANNUAL REPORT 1969



CONTROLLED FOODS
INTERNATIONAL LTD.

CONTENTS


## HIGHLIGHTS

| | 1969 (000's eliminated) | 1968 (000's eliminated) |
|---|---|---|
| Revenues | $13,183 | $11,464 |
| Net Income for Year | 309 | 620 |
| Cash Flow | 668 | 891 |
| Total Assets | 7,591 | 4,942 |
| Shareholders' Equity | 4,072 | 2,071 |

| | 1969 | 1968 |
|---|---|---|
| Per Common Share | | |
| Net Income for Year | $ .13 | $ .26 |
| Cash Flow | .27 | .38 |
| Shareholders' Equity | 1.55 | .89 |

| | 1969 | 1968 |
|---|---|---|
| Number of Restaurants at end of Year | | |
| Company Operated | | |
| A & W | 51 | 45 |
| Chappy's | 6 | — |
| Other | 12 | 16 |
| | 69 | 61 |
| Franchised Restaurants | 8 | — |
| | 77 | 61 |

## TO OUR SHAREHOLDERS

I am pleased to send to you our first Annual Report following our initial public offering of company shares in July of 1969.

The first part of 1969, prior to the public issue, was devoted to negotiations to assemble the various companies that now form the Controlled Foods group. Since the public issue, the Company has been organizing and consolidating these companies into strong Regional Divisions. This work has resulted in establishing Divisional offices in Toronto for Eastern Canada, Minneapolis to direct our U.S. operations, and in Vancouver for Western Canada operations.

This divisional structure will ensure that each operation receives close supervision. Head Office will maintain control over divisional offices through accounting procedures and reporting systems which are in the final development stages.

*In the past year:*

- Total revenue increased to $13,183,000 in 1969 from $11,464,000 in 1968.
- The number of restaurants owned and operated by the Company expanded to 69, compared with 61 as of December 31, 1968.
- Your Company created a new fast food restaurant called "Chappy's Fish and Chips". A total of fourteen Chappy's restaurants were opened in Canada and the U.S.A. in 1969 including units operated by franchisees.
- The common shares of Controlled Foods were offered to investors for the first time in 1969 and were listed on the Toronto Stock Exchange.
- A decision was made to move the corporate office to Vancouver. This decision was made the latter part of 1969 and the physical transfer took place during February, 1970.
- Your Company developed a restaurant concept called "Fuller's Coffee Shop" and with it will enter another area of the fast food business.

The Company expenditure for fixed assets in 1969 was $3,343,000 for:

1. Remodelling and updating a substantial number of our existing units.
2. Acquiring land and buildings for Chappy's Fish and Chips (company owned and franchised units).
3. Acquiring land and buildings for new A & W units.
4. Acquiring and updating equipment in our units.
5. Acquiring land for future expansion.


LeRoy E. Fuller
*President*

Of this expenditure, $1.4 Million was used in the purchase of land. Most of this land was acquired in Ontario, Alberta and British Columbia. These areas continue to show the highest growth rates in Canada and we feel that land in these areas will continue to increase in value.

I was appointed President on May 21st, 1970, following the resignation of Mr. R. F. Bolte, the Company's first President. Mr. Bolte will move to the U.S.A. to continue an academic career. He will, however, remain as a Director of the Company where he will continue to be a significant contributor to the operation of the Company.

We regret that Mr. David Wynn Thomas, our first Chairman, passed away in March, 1970. His wisdom and foresight will be missed by the Company and his many friends and associates.

Looking ahead, the future looks bright for your Company. It is operating from a strong base of company-owned units with many years of past operating history. We see a continuing trend of increasing per capita income, greater population, added leisure time and a greater demand for eat-out meals. These factors give us confidence that our Company has a good long term growth potential in the food industry.

This past year was one full of challenges and accomplishments. We are deeply indebted to our employees, suppliers and shareholders for their loyal support during the period under review.

On behalf of the Board

LeRoy E. Fuller

LeRoy E. Fuller
*President*

June 5, 1970

## FINANCIAL REVIEW

The operations of Controlled Foods International Ltd. and its subsidiary companies have been classified for purposes of planning and control into the following Divisions:

| | SALES (in thousands) | | | |
|---|---|---|---|---|
| **Division** | **1969** | **%** | **1968** | **%** |
| Canadian Drive-In Division | $ 9,583 | 75.0 | $ 9,189 | 80.5 |
| Coffee Shop Division | 1,034 | 8.1 | 639 | 5.6 |
| Burger Family Inc. | 1,950 | 15.3 | 1,584 | 13.9 |
| Chappy's Fish and Chips | 209 | 1.6 | — | — |
| | $12,776 | 100.0 | $11,412 | 100.0 |

### REVENUES

Sales of food and supplies were $12,775,985 in 1969, an increase of 12.0% compared with sales of $11,411,639 in 1968. Our expansion program accounted for part of the increased sales. During 1969 Controlled Foods opened nine company-operated restaurants, including one A & W, two Coffee Shops and six Chappy's Fish and Chips units. One drive-in restaurant in Toronto was closed, at a location which will be redeveloped into a Fuller's Coffee Shop.

The Company sold franchises for Chappy's Fish and Chips stores for the first time in 1969. Under this program Controlled Foods generally acquires land, constructs the building and leases the package to a franchised operator. Gross revenues of the Company in 1969 included over $300,000 from franchising. These revenues were derived from equipment sales, franchise fees, licence fees, rentals and royalties.

### EARNINGS

Income before income taxes was $602,640 in 1969, compared with $1,002,721 in 1968.

Profit margins declined in 1969 due to expenditures made in connection with the organization and public financing of the Company, Head Office staffing requirements, research, development, and land acquisition costs associated with our Chappy's and Fuller's Coffee Shop programs. An amount of $160,000, before taxes, for reorganization, amalgamation and share issue expense was also charged directly to Retained Earnings in the year under review.

Operations were not profitable in the fourth quarter of 1969 due to seasonal factors and an accounting change in the treatment of income from the sale of franchises for Chappy's Fish and Chips. On the advice of our auditors we adopted the accounting approach recommended in the January, 1970 issue of the Journal of Accountancy. Under this approach, revenue from the initial sale of a franchise is recognized as income when the conditions of the franchise contract have been substantially fulfilled. Revenues of the Company in 1969 include $88,240 from initial franchise fees. Additional franchise fees in the amount of $298,600 were not taken into income in 1969. These were recorded as deferred income and will be taken into income as the related franchise contracts are substantially fulfilled.

Our income tax rate increased from 38.2% in 1968 to 48.8% in 1969. At the end of 1969 the Company had unused tax losses aggregating $84,000 which are available for deduction from future taxable income.

Net income for the year in 1969 was $308,640 or 13¢ per share, compared with $620,154 or 26¢ per share in 1968. Earnings per share in each year are based on the average number of shares outstanding.

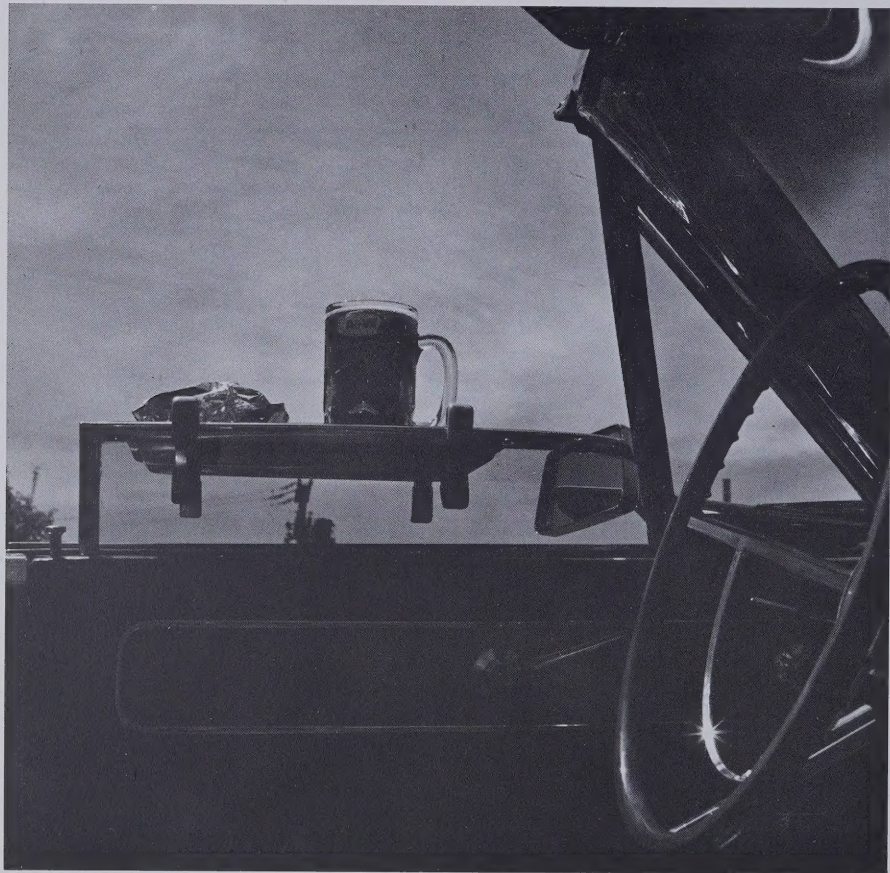
While earnings were below that of 1968 it should be noted that pre-tax profits were the second highest on record. A five year statistical review of Controlled Foods and its predecessor companies appears on page 15.

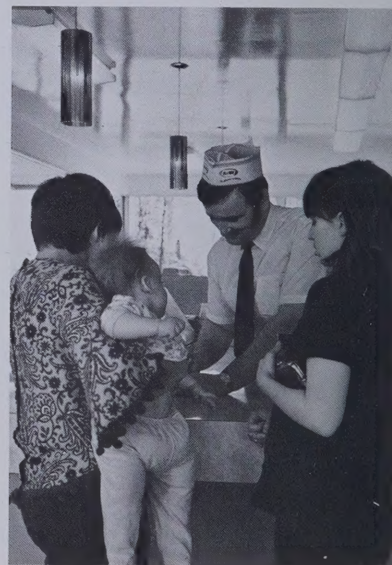
The Company expects to increase profits by reason of centralized control of the Divisions, administrative cost reductions, and price increases where required.

### FINANCIAL POSITION

Shareholders' equity was $4,071,699 at the end of 1969, compared with $2,070,922 at the end of 1968. The increase reflects the issue of 285,000 shares of common stock in 1969 for a cash consideration, before expenses, of $1,769,137.

Capital expenditures for the acquisition of fixed assets were $3,343,093. Due to this rapid buildup, the Company had a working capital deficit of $966,081 at the end of 1969. The Company has, however, a strong fixed asset base from which it has sold or mortgaged certain properties in 1970 to strengthen its working capital position.



## CANADIAN DRIVE IN DIVISION

Controlled Foods owned and operated 53 restaurants in its Canadian Drive-In Division at December 31, 1969 as set out below:

| Name | No. of Units | Location |
|---|---|---|
| A & W. . . . . . . . . | 49 | B.C., Alberta, Ontario, Quebec |
| McMurray's . . . . | 2 | Ontario |
| Robbies . . . . . . . | 2 | Ontario |
| | 53 | |

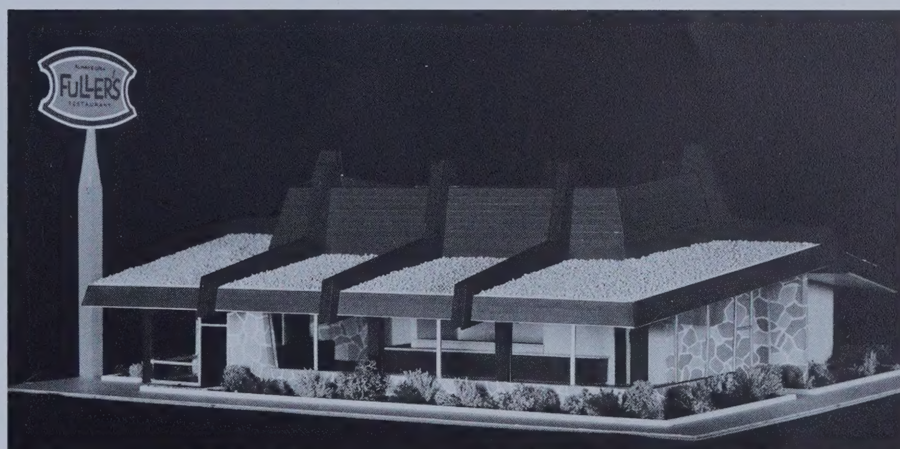
The A & W drive-ins are operated under franchises granted by A & W Food Services of Canada Ltd. A & W is the largest drive-in restaurant chain in Canada, with over 225 units and combined sales in 1969 in excess of $45 Million.

In 1969 the Drive-In Division converted five Country Fair restaurants into A & W units. A new A & W unit was opened in Victoria, British Columbia in December, 1969. One Robbies unit on Jane Street in North York was closed, since the Company plans to construct a Fuller's Coffee Shop on this site.

In May, 1970 a new A & W drive-in restaurant was opened in Edmonton, Alberta, our tenth unit in that city.

Sales of the Canadian Drive-In Division were $9,583,000 in 1969, compared with $9,189,000 in 1968. This Division will continue to be a prime contributor to revenue and profits.



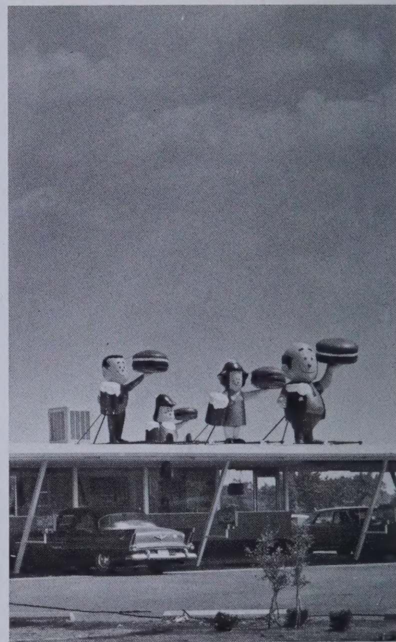



## COFFEE SHOP and RESTAURANT DIVISION

Controlled Foods presently owns and operates four restaurants in its Coffee Shop Division. These include a Hickory House unit in Winnipeg, seating 90 persons; a Buffalo Bill Steak Village in Edmonton; a Burger Family Restaurant in Billings, Montana, seating 150 persons; and a Country Fare Restaurant in London, Ontario.

Sales of this Division in 1969 were $1,034,000 compared with $639,000 in 1968. During the year management conducted a number of studies in this Division in an effort to find a building design, menu and price range, which will become the Company's standard coffee shop package for the 1970's. This intensive review has resulted in the design of Fuller's Coffee Shop, pictured above. This unit provides interior seating facilities for 130 persons in comfortable but informal surroundings. The menu is broad and features steak dinners, chicken and shrimp, as well as hamburgers, hot dogs and a wide range of desserts and beverages.

An Agreement has been signed whereby the first Fuller's Coffee Shop will be constructed in Edmonton and leased to the Company. Management of Controlled Foods is extremely enthusiastic about the Fuller's Coffee Shop program. We intend to establish a leading position in Canada in this segment of the food service industry.




## BURGER FAMILY INC.

Controlled Foods holds the trademarks in the United States for the names and symbols used in the Burger Family merchandising program, including Papa Burger, Mama Burger and Baby Burger. The trademarks are held by Burger Family Inc., a wholly owned subsidiary of Controlled Foods, with offices in Minneapolis, Minnesota.

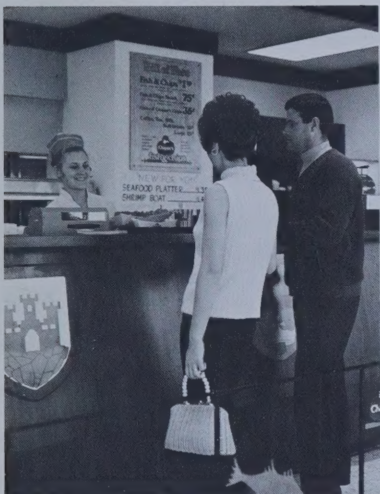
Under limited franchise agreements, Burger Family Inc. has granted the use of these names and symbols to over 1,000 A & W restaurant operators in the United States who merchandise hamburgers under the Burger Family tradename. Burger Family Inc. has a wholesale division which supplies foil bags, seasonings, and paper products to these U.S. restaurant operators. (See illustrations)

Burger Family Inc. also has a fast food division which owns and operates three restaurants in South Carolina trading under the "Burger Family" name, plus three A & W units in South Carolina. Two other restaurants in the Carolinas are operated under a management contract.

Sales of the Burger Family Inc. Division were $1,950,000 in 1969 compared with $1,584,000 in 1968. This sales total includes 15 months of operations for the fast food outlets in North and South Carolina, due to a change in their fiscal year end from September 30th to December 31st.

The outlook for 1970 in this Division is for stable sales and improved profits.

THE BURGER FAMILY®




## CHAPPY'S FISH and CHIPS

In 1969 the management of Controlled Foods created a fish and chips restaurant with the tradename of Chappy's Fish and Chips.

During the year Controlled Foods opened six company-owned Chappy's units. In addition, eight franchised units were opened in Victoria, Calgary, Winnipeg, St. Catharines, Ontario, and three units in Columbia, South Carolina.

Franchises for ten Chappy's units were also sold for 1970, and outlets are open or under construction in Winnipeg, Calgary, Ottawa, Burlington, Kingston and Chicago. Two company-owned stores have been opened in 1970.

Upon completion of this program there will be eight company-owned stores and eighteen franchised stores in operation.

## CONTROLLED FOODS INTERNATIONAL LTD.
*(and its wholly-owned subsidiaries)*

## CONSOLIDATED BALANCE SHEET *December 31, 1969*
*(with comparative figures at December 31, 1968)*

| ASSETS | 1969 | 1968 (note 1) |
|---|---|---|
| CURRENT: | | |
| Cash | $ 40,307 | $ 387,521 |
| Marketable securities — at cost (market value $17,710 in 1969; $19,245 in 1968) | 24,931 | 24,931 |
| Notes and accounts receivable (note 2) | 361,990 | 856,866 |
| Inventory at the lower of cost and net realizable value | 338,243 | 201,743 |
| Prepaid expenses and deposits | 198,490 | 159,348 |
| Total current assets | 963,961 | 1,630,409 |
| LONG TERM NOTES AND RECEIVABLES (note 2) | 168,367 | |
| FIXED (note 3): | | |
| Buildings, equipment and leasehold improvements | 4,703,578 | 2,864,354 |
| Less accumulated depreciation and amortization | 1,187,908 | 943,460 |
| | 3,515,670 | 1,920,894 |
| Land | 2,267,641 | 832,071 |
| | 5,783,311 | 2,752,965 |
| OTHER: | | |
| Franchises and leases at cost less amortization (note 4) | 570,513 | 534,878 |
| Development costs (note 4) | 72,048 | |
| Deferred finance charges | 33,241 | 23,647 |
| | 675,802 | 558,525 |
| | $7,591,441 | $4,941,899 |

*See accompanying notes to consolidated financial statements.*

| LIABILITIES | 1969 | 1968 (note 1) |
|---|---|---|
| CURRENT: | | |
| Bank indebtedness | $ 50,921 | $ 236,150 |
| Accounts payable and accrued charges | 1,290,619 | 754,368 |
| Income and other taxes payable | 220,941 | 315,541 |
| Current portion of long term debt | 367,561 | 256,954 |
| Total current liabilities | 1,930,042 | 1,563,013 |
| DEFERRED FRANCHISE REVENUE | 298,600 | |
| LONG TERM DEBT (note 5) | 1,658,661 | 1,564,918 |
| Less current portion | 367,561 | 256,954 |
| | 1,291,100 | 1,307,964 |
| SHAREHOLDERS' EQUITY: | | |
| Capital stock (notes 1 and 6) — | | |
| Authorized: | | |
| 4,000,000 shares without par value | | |
| Issued: | | |
| 2,625,000 shares | 3,311,509 | 1,542,372 |
| Retained earnings | 760,190 | 528,550 |
| | 4,071,699 | 2,070,922 |
| | $7,591,441 | $4,941,899 |

On behalf of the Board:

DIRECTOR

DIRECTOR

*1. ACQUISITIONS AND ACCOUNTING TREATMENT*

Trivet International Ltd. was incorporated on February 20, 1969 under the laws of the State of Delaware, U.S.A. As of April 29, 1969 the name of the company was changed to Controlled Foods International Ltd. (C.F.I.L.). It is proposed that the company will operate only in Canada holding the shares of other Canadian and United States corporations and will qualify for Canadian income tax purposes as a resident corporation.

On various dates in 1969 (prior to April 29), C.F.I.L. entered into the following transactions:

(a) Acquired in exchange for the issue of 573,495 shares all the outstanding shares of Burger Family, Inc. (Idaho), South Carolina Drive-Ins, Inc. and A & W Soda Shops, Inc. together with certain lands.

(b) Issued 63,722 shares for $245,330.

(c) Subdivided the above mentioned 637,217 shares into 702,000 shares and increased its authorized capital to 4,000,000 shares.

(d) Acquired in exchange for 1,638,000 subdivided shares, all of the outstanding shares of Controlled Foods Corporation Limited (Ontario) and Courtenay A & W Drive-In Ltd. (British Columbia).

Controlled Foods Corporation Limited (C.F.C.L.) represents an amalgamation of eleven companies operating drive-in restaurants in Southern Ontario, effected by letters patent dated December 31, 1968. Since that date this company has acquired all of the outstanding shares of a company operating in Western Canada and a company operating in Quebec and the assets and undertaking of nine drive-in restaurants operating principally in Western Canada. In 1969 and prior to the acquisition by C.F.I.L., C.F.C.L. converted 9,080 $10 par value of its preference shares to 90,800 of its common shares, issued 409,149 common shares in consideration for the cancellation of an obligation of $409,149 due to shareholders and issued 71,000 common shares for $71,000 cash.

Courtenay A & W Drive-In Ltd. and its wholly-owned subsidiaries operate thirteen drive-ins in British Columbia. In 1969 and prior to the acquisition by C.F.I.L., Courtenay issued 13,668 common shares in consideration for the cancellation of an obligation of $157,176 due to shareholders.

All of the C.F.I.L. acquisitions referred to above have been effected by means of the issue of shares. The assets and liabilities of the constituent companies have been combined in the accompanying balance sheets on a "pooling of interests" basis, the net assets being included at the values recorded in the accounts of those companies. The acquisition of all of the outstanding shares of a company operating in Southern Ontario and the cost of the assets and undertaking of three additional restaurants acquired, principally for cash, by a subsidiary company have been accounted for as "purchases".

These transactions are reflected in the pro forma financial statements as at December 31, 1968 as though they had occurred at December 31, 1968. For comparative purposes, therefore, the 1968 financial statements are presented as follows:

(a) The balance sheet as at December 31, 1968 reflects the transactions referred to above;

(b) The statement of consolidated retained earnings includes the retained earnings of all companies acquired in exchange for Treasury shares;

(c) The statement of consolidated earnings includes the combined operating results of the constituent businesses referred to above.

Almost all of these businesses were private companies owned by their former directors and officers whose remuneration varied from year to year and was not indicative of the remuneration that is being paid to executive officers of the combined group of companies in 1969. In this regard, the 1968 operating results are not completely comparable to 1969. If the executive remuneration for 1968 had been at the 1969 rate, $209,933, and income taxes were provided on the basis that all the companies were "associated" for income tax purposes, the 1968 combined net income after taxes would have amounted to approximately $448,000.

Due to the acquisitions referred to above, 1968 comparative figures for the statement of consolidated source and application of funds are not available.

Balance sheets and earnings of U.S. companies are included on the basis of U.S. = Cdn. $1.08.

*2. NOTES AND ACCOUNTS RECEIVABLE*

This consists of:

| | | 1969 | 1968 |
|---|---|---|---|
| Franchise fees and equipment sales | 383,499 | | |
| Less long term portion | 168,367 | $215,132 | |
| Amounts due from shareholders | | 23,694 | $516,330 |
| Trade and other accounts receivable | | 123,164 | 340,536 |
| | | $361,990 | $856,866 |

*3. FIXED ASSETS*

Fixed assets are valued at cost to the consolidated companies. The major categories of depreciable assets are as follows:

| | Cost | Accumulated depreciation and amortization | Net value |
|---|---|---|---|
| Buildings | $2,063,113 | $ 191,709 | $1,871,404 |
| Equipment, signs, automotive, fencing and paving | 2,040,040 | 866,738 | 1,173,302 |
| Leasehold improvements | 600,425 | 129,461 | 470,964 |
| | $4,703,578 | $1,187,908 | $3,515,670 |

In prior years, the company has recorded depreciation on most of its assets on the diminishing balance method at rates used in determining the maximum amounts normally allowable for income tax purposes. In 1969 the method was changed to a straight-line basis for equipment and buildings using rates designed to amortize the net book value over the estimated useful life of the assets. This change had no material effect on the reported results of operations.

*4. OTHER ASSETS*

The cost of franchises and lease costs are being amortized on a straight-line basis over the terms of the contractual agreements varying to a maximum of nineteen years. During 1969 amortization of franchise and lease costs amounted to $46,717.

Development costs are being amortized on a straight-line basis over three years from the commencement of the programme.

*5. LONG TERM DEBT*

This consists of:

| Mortgages of Controlled Foods Corporation Limited or its wholly-owned subsidiaries (repayable in blended instalments of principal and interest over the period to maturity): | Total debt | Portion due within one year | Long term portion |
|---|---|---|---|
| 12% chattel mortgage due August 15, 1970 | $ 40,200 | $ 40,200 | Nil |
| 8% first mortgage due March 15, 1971 | 34,056 | 1,940 | $ 32,116 |
| 7% first mortgage due March 31, 1971 | 18,750 | 15,000 | 3,750 |
| 8½% second mortgage due May 15, 1971 | 27,431 | 832 | 26,599 |
| 7% second mortgage due May 15, 1971 | 1,755 | 1,221 | 534 |
| 8% second mortgage due July 1, 1971 | 65,000 | 15,000 | 50,000 |
| 7½% first mortgage due August 15, 1971 | 31,066 | 2,083 | 28,983 |
| 8% second mortgage due October 1, 1971 | 27,000 | Nil | 27,000 |

*(continued)*

| | Total debt | Portion due within one year | Long term portion |
|---|---|---|---|
| 8% first mortgage due October 30, 1971 | 38,000 | 5,000 | 33,000 |
| 7½% second mortgage due November 23, 1971 | 11,200 | 4,800 | 6,400 |
| 7% first mortgage due February 15, 1972 | 11,575 | 2,272 | 9,303 |
| 9% first mortgage due July 1, 1972 | 36,543 | 1,660 | 34,883 |
| 7% first mortgage due August 1, 1972 | 31,000 | 12,000 | 19,000 |
| 8½% first mortgage due October 1, 1972 | 72,686 | 4,683 | 68,003 |
| 10% first mortgage due March 1, 1973 | 17,043 | 2,019 | 15,024 |
| 8% second mortgage due January 1, 1974 | 81,932 | 9,490 | 72,442 |
| 10% first mortgage due February 1, 1974 | 121,812 | 4,184 | 117,628 |
| 7% second mortgage due November 23, 1974 | 17,700 | 3,600 | 14,100 |
| 7½ % first mortgage due May 15, 1976 | 40,737 | 1,350 | 39,387 |
| 7¾% first mortgage due July 28, 1977 | 68,131 | 3,939 | 64,192 |
| 7% first mortgage due August 1, 1981 | 12,074 | 910 | 11,164 |
| 9½% first mortgage due December 29, 1981 | 55,000 | 175 | 54,825 |
| | 860,691 | 132,358 | 728,333 |
| Mortgages of Burger Family Inc. (repayable in blended instalments of principal and interest over the period to maturity): | | | |
| 7% first mortgage due September 5, 1970 | 12,387 | 12,387 | Nil |
| 8% first mortgage due July 11, 1972 | 24,300 | 8,100 | 16,200 |
| 6% first mortgage due July 28, 1972 | 8,424 | 2,808 | 5,616 |
| 7% second mortgage due September 1, 1978 | 24,502 | 2,117 | 22,385 |
| 7% first mortgage due September 24, 1978 | 39,090 | 3,262 | 35,828 |
| | 108,703 | 28,674 | 80,029 |
| Payable by Courtenay A & W Drive-In Ltd. or its wholly-owned subsidiaries: | | | |
| Agreement for sale — 10% agreement for sale due May 31, 1970 | 50,000 | 50,000 | Nil |
| Mortgages (repayable in blended instalments of principal and interest over the period to maturity): | | | |
| 7% first mortgage due December 1, 1975 | 8,423 | 1,400 | 7,023 |
| 7% first mortgage due December 1, 1980 | 25,007 | 2,530 | 22,477 |
| 8% first mortgage due August 1, 1985 | 10,713 | 362 | 10,351 |
| 10% first mortgage due August 1, 1986 | 37,438 | 930 | 36,508 |
| NOTES PAYABLE: | | | |
| D. Mohler, repayable in yearly instalments of $17,750 plus interest at 7% per annum due April 1, 1972 | 53,250 | 17,750 | 35,500 |
| Associated A & W Drive-Ins Ltd., repayable in monthly instalments of $4,167 commencing June 1, 1969 plus interest at 8% per annum due June 1, 1973 | 170,833 | 50,000 | 120,833 |
| Composite Investments Ltd., repayable in monthly instalments of $1,250 plus interest at 8½% per annum due April 1, 1977 | 108,750 | 15,000 | 93,750 |
| | 464,414 | 137,972 | 326,442 |
| Owing by various subsidiaries — lien notes due 1970 to 1976 | 224,853 | 68,557 | 156,296 |
| | $1,658,661 | $367,561 | $1,291,100 |

The aggregate amount of principal repayable over the next five years is as follows: 1970 — $367,561; 1971 — $406,571; 1972 — $272,386; 1973 — $113,541; 1974 — $201,302.

### 6. *CAPITAL STOCK*

During the year the company sold, pursuant to an underwriting agreement, 285,000 common shares for an aggregate consideration of $1,769,137.

The Underwriter has an option to purchase a further 21,500 shares at $6.50 per share at any time to June 30, 1972.

### 7. *LOSSES AVAILABLE FOR TAX PURPOSES*

Certain subsidiaries have incurred losses in 1969 and prior years, aggregating $84,000, which are available for deduction from future taxable income in the respective companies, within the limitations prescribed by The Income Tax Act.

### 8. *COMMITMENTS*

Various subsidiary companies have leases of real property for varying terms up to a maximum of nineteen years with rentals varying in some instances, with gross revenues, taxes, insurance and other occupancy charges. Minimum rentals for the succeeding five years are as follows:

| | |
|---|---|
| 1970 | $ 388,801 |
| 1971 | 382,777 |
| 1972 | 379,793 |
| 1973 | 342,418 |
| 1974 | 324,341 |
| | $1,818,130 |

Contractual obligations at December 31, 1969 in respect of capital and other expenditures amounted to approximately $500,000.

### 9. *REVENUE FROM FRANCHISE FEES*

Revenue from franchise fees is recognized in the accounts as income when the conditions of the contract have been substantially fulfilled.

### 10. *STATUTORY INFORMATION*

1969 expenses include remuneration of directors and senior officers of $209,933.

CONTROLLED FOODS INTERNATIONAL LTD.

## STATEMENT OF CONSOLIDATED EARNINGS

*YEAR ENDED DECEMBER 31, 1969 (with comparative figures for 1968)*

| | 1969 | 1968 (note 1) |
|---|---|---|
| REVENUES: | | |
| Sales — | | |
| Food and supplies | $12,775,985 | $11,411,639 |
| Equipment | 146,504 | |
| Franchise fees (note 9) | 88,240 | |
| Licence fees and royalty income | 44,610 | |
| Rental income | 54,244 | 22,394 |
| Other income — net | 73,678 | 29,656 |
| | 13,183,261 | 11,463,689 |
| COSTS AND EXPENSES: | | |
| Cost of sales — | | |
| Food and supplies | 4,872,550 | 4,472,968 |
| Equipment | 113,161 | |
| Depreciation and amortization of fixed assets | 312,747 | 270,770 |
| Selling, operating, general and administrative expenses | 7,119,512 | 5,598,444 |
| Interest — | | |
| Long term debt | 139,028 | 94,767 |
| Other | 23,623 | 24,019 |
| | 12,580,621 | 10,460,968 |
| Income before income taxes | 602,640 | 1,002,721 |
| Income taxes | 294,000 | 382,567 |
| Net income for year | $ 308,640 | $ 620,154 |
| Earnings per share | $.13 | $.26 |

Earnings per share for 1969 have been calculated on the basis of the weighted average number of common shares outstanding during the year.

The 1968 pro forma earnings per share are computed using the number of shares outstanding immediately before the issuance of shares referred to in note 6. As indicated in note 1, had the combined income for 1968 been computed on the basis of the 1969 level of executive remuneration and 1969 income tax position, the net income would have amounted to $448,000, or $.19 per share.

*See accompanying notes to consolidated financial statements.*

CONTROLLED FOODS INTERNATIONAL LTD.

## STATEMENT OF CONSOLIDATED RETAINED EARNINGS

*YEAR ENDED DECEMBER 31, 1969 (with comparative figures for 1968)*

| | 1969 | 1968 (note 1) |
|---|---|---|
| Retained earnings beginning of year | $528,550 | $643,756 |
| Consolidated net income: | | |
| Net income for year | 308,640 | 620,154 |
| Less, in 1968, amounts included therein which are applicable to companies whose assets (as distinct from shares) were acquired (note 1) | | 265,290 |
| | 308,640 | 354,864 |
| | 837,190 | 998,620 |
| Deduct: | | |
| Distributed to former shareholders pursuant to Section 99 of the Corporations Act (Ontario) | | 79,749 |
| Goodwill written off | | 349,321 |
| Reorganization, amalgamation and share issue expenses, less applicable income taxes (1969 — $83,000; 1968 — $16,800) | 77,000 | 41,000 |
| | 77,000 | 470,070 |
| Retained earnings end of year | $760,190 | $528,550 |

*See accompanying notes to consolidated financial statements.*

## STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

*YEAR ENDED DECEMBER 31, 1969 (note 1)*

| | |
|---|---|
| SOURCE OF FUNDS: | |
| Operations — | |
| Net income for year | $ 308,640 |
| Depreciation and amortization of fixed assets | 312,747 |
| Amortization of franchises and lease costs | 46,717 |
| | 668,104 |
| Issue of common shares | 1,769,137 |
| Additional long term debt financing | 354,268 |
| Increase in deferred franchise revenue | 298,600 |
| | 3,090,109 |
| APPLICATION OF FUNDS: | |
| Retirement of long term debt | 371,132 |
| Fixed assets acquired (net) | 3,343,093 |
| Increase in long term receivables | 168,367 |
| Increase in other assets | 163,994 |
| Reorganization, amalgamation and share issue expenses less applicable income taxes | 77,000 |
| | 4,123,586 |
| Reduction in working capital during year | (1,033,477) |
| Working capital at beginning of year | 67,396 |
| Working capital deficiency at end of year | $ (966,081) |

*See accompanying notes to consolidated financial statements.*

*To the Shareholders of*
CONTROLLED FOODS INTERNATIONAL LTD.

We have examined the consolidated balance sheet of Controlled Foods International Ltd. and its wholly-owned subsidiaries as at December 31, 1969 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of computing depreciation explained in note 3 to the consolidated financial statements, were applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co

*Hamilton, Canada,*
*May 13, 1970*

*Chartered Accountants*

**DIRECTORS**

David Wynn Thomas (Deceased)
Richard Frederick Bolte
James Alfred Cox
Kenneth Alfred Fowler
LeRoy Earl Fuller
Robert Richard Roe
Ray Coye Bass
John Thomas Burnett
Jerroll Russell Johnston
Joseph Clement Murphy
Ross James Turner

**OFFICERS**

LeRoy Earl Fuller
James Alfred Cox
Kenneth Alfred Fowler
Robert Richard Roe

| | |
|---|---|
| *HEAD OFFICE:* | Vancouver, Canada |
| *AUDITORS:* | Clarkson, Gordon & Co. |
| *SOLICITORS:* | Davis & Co. |
| *BANKERS:* | The Toronto-Dominion Bank |
| *TRANSFER AGENT:* | Canada Permanent Trust Company |
| *STOCK LISTING:* | Toronto Stock Exchange |

**CONTROLLED FOODS INTERNATIONAL LTD.**
**and Predecessor Companies**

## FIVE YEAR STATISTICAL REVIEW *(000's eliminated)*

| | 1969 | 1968 | 1967 | 1966 | 1965 |
|---|---|---|---|---|---|
| Sales | $12,922 | $11,412 | $10,296 | $8,479 | $6,297 |
| Franchise Fees | 88 | | | | |
| Other Income | 173 | 52 | 63 | 62 | 42 |
| | 13,183 | 11,464 | 10,359 | 8,541 | 6,339 |
| Cost of sales | 4,986 | 4,473 | 4,139 | 3,480 | 2,626 |
| Operating expenses | 7,119 | 5,598 | 5,372 | 4,257 | 3,159 |
| | 12,105 | 10,071 | 9,511 | 7,737 | 5,785 |
| Operating profit | 1,078 | 1,393 | 848 | 804 | 554 |
| Depreciation & amortization | 313 | 271 | 215 | 188 | 140 |
| Interest | 162 | 119 | 90 | 68 | 66 |
| | 475 | 390 | 305 | 256 | 206 |
| Income before taxes | 603 | 1,003 | 543 | 548 | 348 |
| Income taxes | 294 | 383 | 176 | 198 | 129 |
| Net income for year | 309 | 620 | 367 | 360 | 219 |
| Average number of shares outstanding (*Note*) | 2,451 | 2,340 | 2,340 | 2,340 | 2,340 |
| Earnings per share | $ .13 | .26 | .16 | .15 | .09 |

*Note:* For purposes of comparison the 1965 to 1968 earnings per share are computed using the number of shares outstanding immediately prior to the public offering.

## RESTAURANT LOCATIONS

### A & W DRIVE-INS:

ONTARIO:

| | |
|---|---|
| Belleville | 1 |
| Brockville | 1 |
| Cornwall | 2 |
| Kingston | 1 |
| London | 4 |
| Mississauga | 1 |
| Niagara Falls | 2 |
| Oakville | 1 |
| Port Colborne | 1 |
| Port Credit | 1 |
| Richmond Hill | 1 |
| St. Catharines | 2 |
| Stratford | 1 |
| Trenton | 1 |
| Welland | 2 |
| Woodstock | 1 |

BRITISH COLUMBIA:

| | |
|---|---|
| Victoria | 4 |
| Nanaimo | 1 |
| Duncan | 1 |
| Courtenay | 1 |
| Campbell River | 1 |
| Port Alberni | 1 |
| Abbotsford | 1 |
| Haney | 1 |
| White Rock | 1 |
| Coquitlam | 1 |
| Chilliwack | 1 |
| Langley | 1 |

ALBERTA:

| | |
|---|---|
| Edmonton | 10 |

QUEBEC:

| | |
|---|---|
| Granby | 1 |
| Sherbrooke | 1 |

SOUTH CAROLINA:

| | |
|---|---|
| Columbia | 1 |
| Aiken | 1 |

### OTHER DRIVE-INS:

ONTARIO:

| | |
|---|---|
| St. Catharines | 1 |
| Oshawa | 1 |
| Brantford | 2 |

SOUTH CAROLINA:

| | |
|---|---|
| Rosewood | 1 |
| Camden | 1 |
| Sumter | 1 |
| Dillon | 1 |

### COFFEE SHOPS:

ONTARIO:

| | |
|---|---|
| London | 1 |

MANITOBA:

| | |
|---|---|
| Winnipeg | 1 |

ALBERTA:

| | |
|---|---|
| Edmonton | 1 |

MONTANA:

| | |
|---|---|
| Billings | 1 |

### CHAPPY'S

*Company Operated:*

ONTARIO:

| | |
|---|---|
| Toronto | 1 |
| Brantford | 1 |

MANITOBA:

| | |
|---|---|
| Winnipeg | 1 |

BRITISH COLUMBIA:

| | |
|---|---|
| Vancouver | 2 |

**United States**

COLORADO:

| | |
|---|---|
| Denver | 1 |

GEORGIA:

| | |
|---|---|
| Atlanta | 1 |

TEXAS:

| | |
|---|---|
| El Paso | 1 |

### CHAPPY'S

*Franchised:*

ONTARIO:

| | |
|---|---|
| Burlington | 1 |
| St. Catharines | 1 |
| Kingston | 1 |
| Ottawa | 2 |

MANITOBA:

| | |
|---|---|
| Winnipeg | 4 |

ALBERTA:

| | |
|---|---|
| Calgary | 1 |

BRITISH COLUMBIA:

| | |
|---|---|
| Victoria | 1 |

SOUTH CAROLINA:

| | |
|---|---|
| Columbia | 3 |

ILLINOIS:

| | |
|---|---|
| Chicago | 1 |


A W

CONTROLLED FOODS INTERNATIONAL LTD., 3155 UNDERHILL, BURNABY 2, B.C.

LITHO'D IN VANCOUVER CANADA BY PRICE PRINTI

AR48

PRESS RELEASE

file

August 5, 1969.

A Winnipeg based Canadian company will construct more than 200 fish and chips outlets across North America in the next 36 months according to an announcement made today by Richard F. Bolte, President of Controlled Foods International Limited.

Mr. Bolte, speaking to members of the Manitoba Press, said that the original test units constructed and operating in Winnipeg, Manitoba and Columbia, South Carolina, have indicated a ready available market for top quality fish and chips services in modern fast food outlets.

Units are or will be in operation by the fall in El Paso, Texas (2), Columbia, South Carolina (3), Denver, Colorado (1), Minneapolis, Minnesota (2), Atlanta, Georgia (2), St. Charles, South Carolina (2), Chicago, Illinois (1), Vancouver, British Columbia (3), Victoria, British Columbia (2), Edmonton, Alberta (2), Toronto, Ontario (4), Winnipeg, Manitoba (3), and Calgary, Alberta (1).

"We at Controlled Foods will operate on a basis of a substantial percentage of company owned units combined with extensive franchised programmes." said Mr. Bolte.

...../

"We decided to test market the fish and chips concept in the mid-west of Canada because it was our feeling that if consumers showed a strong acceptance of this product here, consumers in the seaboard areas of the country would show an even more enthusiastic acceptance."

One fact which makes fish and chips restaurants an attractive investment is the low original expenditure. Capital costs and the low cost of land and building requirements for free standing units are one half of standard restaurants. Food costs and labour costs also represent smaller percentage of sales than other types of restaurants.

To maximize the quality of the fish and chips, an English staff and English equipment were imported to develop recipes and methods to duplicate the authentic English style fish and chips.

Arnold Kirsch who has had extensive experience in the fish and chips business in England heads the Division in Canada.

Chappy's is the newest Division of Controlled Foods International Limited. The Company is Canadian owned and in the last year grossed 11.4 million dollars making it the fourth largest fast food, limited menu operation in Canada.

- 30 -

George McLean Public Relatio
45 Charles Street East,
7th Floor,
Toronto, Ontario.
(416) 924-9777

July, 1969

AN INVESTMENT STUDY

OF

# CONTROLLED FOODS INTERNATIONAL LTD.

(NEW ISSUE)

Burns Bros. and Denton Limited

Hickory House Coffee Shop, Winnipeg, Man.


Chappy's Fish and Chips Take-Out Restaurant, Winnipeg, Man.

A D D E N D U M

T O

CONTROLLED FOODS INTERNATIONAL LIMITED STUDY

Please note the following changes in our research report on Controlled Foods, due to the change in the issue price from $7.00 to $6.50.

Page 2

The issue price in the "Stock Market" table for Controlled Foods should read $6.50. The revised P/E ratio, based on issue price, is 16.3.

Page 7

Under "Pro"Forma Capitalization", the net worth for common is $3,755,059. The total proforma capitalization is $5,281,556.

Page 7

Burns Bros. has an option to purchase 21,500 shares of Controlled Foods at $6.50 per share, until June 26, 1972.

Page 29

On the proforma balance sheet, the revised net worth for common is $3,755 ($000's omitted) and cash should read $1,835. Total assets are $6,390.

July 2, 1969.

AN INVESTMENT STUDY

OF

# CONTROLLED FOODS INTERNATIONAL LTD.

(NEW ISSUE)

BURNS BROS and DENTON

J. Donald Tigert

Investment Research Department

June, 1969

TABLE OF CONTENTS

# CONTROLLED FOODS INTERNATIONAL LTD.

## SUMMARY and RECOMMENDATION

The initial offering of stock by Controlled Foods International Ltd. offers investors an opportunity to participate in one of the most profitable, fastest growth phases of the food service business, in the United States and Canada.

There is a distinct trend in North America towards away-from-home eating, with the most rapid growth taking place in such business areas as limited menu fast food restaurants, as well as motels and airline catering.

The principal reasons for this shift in eating habits are (1) the increase in the number of working wives and the trend towards convenience foods (2) continual increases in disposable income (3) increased leisure time and travel by working people, and (4) steady growth in the population, particularly in urban areas.

The away-from-home eating market in the U.S., estimated by The Pillsbury Company at $22 billion in 1968, is expected to double to $45 billion by 1975. During this period, the share of the food dollar spent on out of the house feeding will increase from about 25% to approximately 33%.

We estimate that the larger U.S. food service companies will open over 2500 fast food restaurants in 1969, including corporate stores and franchised outlets.

In Canada, a similar trend is clearly evident. The May, 1969 issue of "Building and Management" predicts that the major fast food chains will open at least 2,000 limited menu restaurants in Canada over the next five years, and spend over $250 million for land, buildings and equipment. We estimate that the leading companies will open or start construction on at least 250 fast food restaurants in Canada in 1969, including corporate and franchised stores.

Controlled Foods International Ltd. operates and franchises limited menu fast food restaurants, and operates as a wholesale supplier of food, paper products and equipment to restaurants, in the United States and Canada.

The common shares of Controlled Foods are recommended as a special situation investment, possessing above average potential for capital appreciation over the one to three year term. Our recommendation is made in the light of the company's impressive growth record from 1964 to 1968, the outlook for accelerated growth from 1969-1971, and the favourable environment generally in the food service industry.

From 1964 to 1968, consolidated sales of Controlled Foods increased from $5.4 million to $11.4 million, equivalent to a compound growth rate of 20% per annum. During the same period, earnings per share increased from 7¢ to 24¢, equivalent to a compound growth rate of 34% per annum.

We expect that Controlled Foods' growth rate will increase from 1969 to 1971, due to an improvement in profit margins in existing outlets, the opening of new drive-in restaurants and coffee shops, and the company's plans to operate and franchise a chain of "Chappy's" fish and chips take-out stores in Canada and the U.S.

Earnings per share are estimated at 40¢ for the year ending December 31, 1969, and are projected to reach 81¢ by 1971. This represents a compound average growth rate of 51% per annum from 1969 to 1971.

The common shares of Controlled Foods could show substantial capital appreciation over a one to three year period, if our earnings projections are realized. In valuing the shares of Controlled Foods, it should be noted that long term investors have paid high price earnings ratios for the shares of 12 successful fast food companies in the U.S. and Canada. The stock market and earnings record of these companies is summarized below.

Stock Market Record of Leading Companies

| Established Companies | 1969 Est. E.P.S. | Recent Price | P/E Ratio | Average Annual Growth Rate in E.P.S. 1964/68 |
|---|---|---|---|---|
| Lum's Inc. (U.S.) | $ 2.40 | $ 76.50 | 31.8 | 129% |
| Kentucky Fried Chicken (U.S.) | 1.20 | 45.00 | 37.5 | 125 |
| Harveys Foods (Can.) | 0.45 | 9.00 | 20.0 | 46 |
| McDonald's Corp. (U.S.) | 2.10 | 65.25 | 31.0 | 40 |
| Gino's Inc. (U.S.) | 0.80 | 35.75 | 44.6 | 39 |
| Denny's Restaurants (U.S.) | 0.90 | 32.63 | 36.3 | 27 |
| **Recent Underwritings** | | | | |
| Collins Foods Int'l (U.S.) | $ 1.20 | $ 30.00 | 25.0 | 81% |
| Self Service Restaurants (U.S.) | 0.70 | 20.00 | 28.6 | 58 |
| Controlled Foods Int'l (Can.) | 0.40 | 7.00 (1) | 17.5 | 34 |
| Sambo's (U.S.) | 0.90 | 28.00 | 31.2 | 32 |
| Kenflo Corporation (U.S.) | 0.65 | 16.50 | 25.4 | 26 |
| Frisch's Restaurants (U.S.) | 2.10 | 32.00 | 15.2 | 12 |

(1) New Issue Price in June, 1969

**Trends in the Fast Food Restaurant Industry**

Information on the history and outlook of 12 public companies in the fast food restaurant industry is included in Appendices I, II, III. This information indicates that the 12 leading companies experienced compound annual growth rates in earnings per share which ranged from 12% to 129% in the period from 1964 to 1968.

In the early days of the industry, the large U.S. companies such as McDonalds' Corp. and Kentucky Fried Chicken Corp. grew rapidly by franchising. In recent years, most large companies have been attempting to buy back their franchised outlets, which have proved to be very profitable operations. Sales per average store have steadily increased for almost every fast food restaurant company. This has resulted in improved profit margins for the operator, since profit margins on incremental sales can be as high as 30% to 40%.

The upward trend of average sales per store for the 12 leading companies is set out in Appendix II. Unit sales for some companies have increased by over 50%, from 1964 to 1968. Most fast food companies are continuing to expand very rapidly with no sign of saturation. Appendix I includes a partial list of the sales and expansion plans of the larger companies. It suggests that the number of fast food outlets in Canada and the U.S. will increase by over 20% in 1969. It is interesting to note that this group of fast food companies had estimated sales of nearly $2 billion in the U.S. and over $125 million in Canada in 1968.

Another trend in the U.S. market is for regional franchisees of large fast food companies to become public companies themselves, which is also happening in the case of Controlled Foods. This group in the United States includes Gino's Inc., Collins Foods International Inc., and Kenflo Corporation, who are all franchisees of Kentucky Fried Chicken Corp.; and Self Service Restaurants Inc., a franchisee of Burger King. These companies are quite profitable, and their stocks in every case have doubled in the last 12 months.

There is a distinct trend in the U.S. fast food industry towards opening larger coffee shop units with interior seating. For example, McDonald's Corp. has indicated that it will convert most of its 1,087 units to sit-down restaurants. A & W has recently unveiled a coffee shop concept called Crandall House. Red Barn has enlarged its standard unit to provide inside seats for 32 to 90 people.

Several public companies in the U.S. have recently begun to franchise fish and chips take-out restaurants. This group includes Kentucky Fried Chicken Corp., Collins Foods International Inc., Alfie's, Sea Host, and Arthur Treacher's.

**THE COMPANY**

Controlled Foods International Ltd. is a holding company which, through subsidiaries in Canada and the United States, is engaged in the business of operating and franchising limited menu fast food restaurants, as well as acting as a wholesale supplier of food, paper products and equipment to restaurants.

The Company was incorporated under the laws of the State of Delaware in 1969, but operates with its chief administrative office at 2727 Portage Avenue in Winnipeg, Manitoba. Since incorporation, the Company has acquired a number of private companies with a successful history of operating fast food restaurants for over ten years.

At December 31, 1968, Controlled Foods operated 54 limited menu fast food restaurants in Canada, including 43 A & W drive-in units; and nine fast food restaurants in the United States, including two A & W drive-ins.

The A & W drive-ins in Canada are operated under franchises granted by A & W Food Services of Canada Ltd., a wholly owned subsidiary of United Fruit Co. A & W is one of the largest fast food franchised restaurant chains in North America, with about 2,400 drive-ins and estimated total sales of $225 million U.S. in 1968.

Sales of Controlled Foods' drive-in restaurants in Canada increased by over 100% from 1964 to 1968. Sales of this Division of the Company were in excess of $8,000,000 in 1968.

In the United States, Controlled Foods supplies foil bags, seasonings, cups and paper products to over 1,000 A & W operators, who merchandise hamburgers under the Burger Family trade name. Controlled Foods holds the patent in the U.S. for the names and symbols used in the Burger Family merchandising programmes. Sales of the wholesale operation were about $1,000,000 in 1968.

Controlled Foods owns four Burger Family drive-in restaurants and two A & W drive-ins in North and South Carolina plus a Burger Family coffee shop restaurant in Billings, Montana. Two additional Burger Family drive-ins in the Carolinas are operated under a management contract.

The Company has recently designed a free standing coffee shop restaurant, which operates under the name of Hickory House in Canada, and Burger Family in the United States. The coffee shop is a limited menu fast food restaurant concept, which features interior seating for 90 to 125 persons, compared with car-hop or counter service at an A & W drive-in. The menu is similar to A & W as it features hamburgers, milk shakes, french fries and soft drinks. Unit sales in a coffee shop range from $300,000 to $500,000, compared with $150,000 to $300,000 for an A & W drive-in.

Controlled Foods expects to open at least 20 coffee shop restaurants from 1969 to 1971. Total sales of these units are estimated at $1,250,000 in 1969, and are projected to reach $7,050,000 by 1971.

The Company has also designed a fish and chips take-out restaurant, which operates under the name of "Chappy's Fish and Chips". Two prototype units are operating profitably at the present time, in Winnipeg, Manitoba and Columbia, South Carolina, respectively. Sales in a Chappy's take-out restaurant are projected at $150,000 to $200,000 for a free standing unit, and $100,000 for an "in-line" take-out unit in a shopping plaza. Profit margins are high in a fish and chips restaurant, due to the low costs for food, labour, land, building and equipment.

Controlled Foods plans to open and operate at least 25 fish and chips restaurants, from 1969 to 1971. Also, the Company expects to sell over 250 Chappy's franchises to operators in the U.S. and Canada during the same period. If the Company meets its goal of 25 corporate units and the sale of 250 franchises by 1971, we estimate that pre-tax profits from fish and chips operations could reach $1,832,000 by 1971.

For the purposes of planning and control, Controlled Foods has classified its operations into five divisions:

| Division | Location | (June, 1969) Number of Restaurants | |
|---|---|---|---|
| 1. Canadian Drive-In Division | Canada | A & W | 43 |
| | | Country Fair | 5 |
| | | Robbies | 3 |
| | | McMurray's | 2 |
| | | | 53 |
| 2. Coffee Shop Division | Canada & U.S. | Hickory House | 1 |
| | | Burger Family | 1 |
| | | Buffalo Bill | 1 |
| | | Country Fare | 1 |
| | | | 4 |
| 3. Burger Family Inc. | U.S. | (a) A & W | 2 |
| | | Burger Family | 6 |
| | | | 8 |
| | | (b) Wholesale Supply | |
| 4. Chappy's Enterprises of Canada Ltd. | Canada | Chappy's Fish & Chips | 1 |
| 5. Chappy's Enterprises Inc. | U.S. | Chappy's Fish & Chips | 1 |
| | | | 67 |

**Outlook for Sales and Earnings: 1969 to 1971**

This report contains a detailed review of the operations and earnings outlook from 1969 to 1971 for each of the five Divisions of Controlled Foods. These estimates by Division have been combined to arrive at our estimate and projections for consolidated sales and earnings from 1969 to 1971:

| ($000) Year to Dec. 31 | ....Actual .... 1967 | 1968 | Estimate 1969 | ...Projection... 1970 | 1971 |
|---|---|---|---|---|---|
| Corporate Sales | $10,296 | $11,412 | $13,947 | $19,730 | $25,040 |
| Pre-tax Profit | 543 | 1,003 | 2,149 | 3,263 | 4,512 |
| Net Profit | 367 | 620 | 1,056 | 1,533 | 2,122 |
| Earnings per Share | 14¢ | 24¢ | 40¢ | 58¢ | 81¢ |

We estimate that earnings per share will increase from 24¢ in 1968 to 40¢ in 1969, and will further increase to 81¢ by 1971. This is a compound growth rate of 51% per annum, over three years.

Controlled Foods had an effective tax rate of 32.5% in 1967 and 38.3% in 1968, when its subsidiaries operated as private companies. Our earnings estimates for 1969 to 1971 are based on an effective tax rate of 53%. The Company has a tax credit of $45,000 to be applied against its tax liability in 1969.

The senior executives of Controlled Foods have entered into compensation agreements which provide for a maximum remuneration of $225,000 per annum in 1969 and 1970. We have used this figure in our earnings projections.

**Capital Expenditures and Cash Flow**

Controlled Foods intends to finance a large part of its restaurant expansion programme through leasing, or through mortgaging its ownership interest in land, buildings and equipment.

Capital expenditures for the balance of 1969 are estimated at $2.5 million. Cash flow in 1969 is estimated at about $2.8 million, including the net proceeds of the public issue after using $421,000 to retire short term debt.

Capital expenditures will likely be $2 million or more in both 1970 and 1971. Cash flow over this two year period is projected at $4.6 million. If necessary, additional funds could be generated by the Company through mortgaging its existing properties, or through the use of short term bank credit.

**Return on Invested Capital**

We estimate that Controlled Foods' gross return on average invested capital will increase from 43.5% in 1969 to 53.1% by 1971. This reflects the increasing stress of the company on operating high volume coffee shops, and on the ownership and franchising of fish and chips take-out stores. See below:

| ($000) Year to Dec 31 | 1968 | Estimate 1969 | --- Projection ---- 1970 | 1971 |
|---|---|---|---|---|
| Funded Debt | $1,308 | 1,400 | 1,500 | 1,600 |
| Equity Capital | 1,542 | 3,447 | 3,447 | 3,447 |
| Retained Earnings | 529 | 1,500 | 3,033 | 5,155 |
| Invested Capital | 3,379 | 6,347 | 7,980 | 10,202 |
| Ave. Invested Capital | 3,370 | 4,860 | 7,160 | 9,090 |
| Operating Profits before Depreciation & Interest | 1,480 | 2,240 | 3,178 | 4,189 |
| Pretax profit-franchising | - | 523 | 850 | 1,232 |
| | $1,480 | 2,763 | 4,028 | 5,421 |
| % Return on Capital | 43.7% | 43.5% | 50.5% | 53.1% |

PRO FORMA CAPITALIZATION AT MARCH 31, 1969

| | Authorized | Outstanding | Amount |
|---|---|---|---|
| Mortgages of Subsidiaries | | | $985,787 |
| Notes Payable by Subsidiaries | | | 446,000 |
| Sundry Lien Notes of Subsidiaries | | | 94,710 |
| | | | 1,526,497 |
| Common Shares | 4,000,000 | 2,625,000 | 3,890,862 |
| | | | $5,417,359 |

**Principal Holders of Securities**

Controlled Foods will have 2,625,000 common shares outstanding, following the public offering of 285,000 shares at $7.00 per share in June, 1969.

The directors and senior officers of the company, as a group, beneficially own, directly or indirectly 70.2% of the shares of the company. Included in this figure are the holdings of five members of senior management, which total 1,486,769 shares, or 56.6% of the outstanding shares.

Burns Bros. and Denton Ltd. has an option to purchase 21,500 shares of treasury stock, at a price of $7.00 per share exercisable at any time prior to the end of June, 1972.

**Dividend Policy**

The Board of Directors does not at present intend to pay dividends until funds are available for such purpose in excess of those required for expansion of the Company's business.

**Tax Considerations**

Controlled Foods is a domestic United States corporation, the control and management of which is situated in Canada. As such, it is subject to the income tax laws of both Canada and the United States.

The shares of Controlled Foods may be purchased by U.S. investors free of the Interest Equalization Tax by virtue of Controlled Foods' status as a United States corporation.

**Management**

Controlled Foods has a strong team of senior executives, who have successfully proven their business ability in all phases of the fast food restaurant industry.

The Chairman of the company is David Wynn Thomas, who for the past 11 years was President and chief executive officer of a number of private predecessor companies operating A & W drive-in restaurants in the Niagara Peninsula. These companies are now part of the Controlled Foods group.

Day to day management of Controlled Foods in Winnipeg is guided by Richard F. Bolte, President, assisted by James A. Cox, Executive Vice-President, and Donald J. Dal Bianco, C.A., Treasurer.

Richard Bolte acquired the A & W master franchise for Canada in 1956. From a base in Winnipeg, he developed a chain of A & W franchised restaurants which now number more than 200 across Canada. In 1966, Mr. Bolte sold his A & W interests to United Fruit Company. In 1967 and 1968, he concentrated on development of the Trivet International Group of companies, including Burger Family Inc. (wholesale suppliers to 1,000 U.S. franchised restaurant operators); the Burger Family restaurant chain in the U.S.; Chappy's Fish and Chips; and Hickory House Coffee Shops. All these companies are now part of the Controlled Foods group.

James Cox is a Barrister and Solicitor, who practiced law in Edmonton for the past 15 years. During most of this period, he was associated with the development of nine high volume A & W drive-in restaurants in Edmonton.

Donald Dal Bianco is a chartered Accountant who was employed by Clarkson, Gordon from 1960 until he joined Controlled Foods in 1968.

The A & W Drive-Ins and Coffee Shops in Eastern Canada are supervised by Kenneth Fowler, Vice-President, and the A & W units in Western Canada are supervised by LeRoy E. Fuller, Vice-President.

Kenneth Fowler for the past 10 years was President of a number of private companies operating A & W drive-in restaurants mainly in Eastern Ontario. These restaurants are now part of the Controlled Foods group.

LeRoy Fuller for the past 12 years was President of a number of private companies which operated A & W drive-in restaurants in Edmonton, Alberta, and since 1968, in British Columbia. These restaurants are now part of the Controlled Foods group.

Chappy's Enterprises of Canada Ltd. is directed by Arnold Kirsch, President. Mr. Kirsch was born in the U.K., where he gained extensive experience in the fish and chips business, including experience in sales management and food equipment marketing. He came to Canada in 1964, and was active in commercial real estate sales and development in Manitoba before joining Controlled Foods in 1968.

U.S. activities of Controlled Foods are presently being centralized in Minneapolis, Minnesota, under the direction of P. Dale Magnus, Vice-President, U.S. Operations; Jerroll R. Johnston, President of Chappy's Enterprises Inc.; and William H. Harrison, President of Burger Family Inc.

Dale Magnus is a Chartered Accountant, and was formerly Comptroller for a Winnipeg-based group of real estate development companies.

Jerry Johnston created the "Burger Family" name and merchandising programme, used successfully by A & W restaurants in the U.S. and Canada. Mr. Johnston helped develop Burger Family Inc., the wholesale supply operation in the U.S. and is now primarily responsible for developing Controlled Foods' fish and chips franchise programme in the U.S.

**Canadian Drive-In Division**

Controlled Foods owned and operated 52 restaurants in its Canadian Drive-In Division at December 31, 1968, as set out below:

| Name | No. of Units | Location |
|---|---|---|
| A & W | 43 | Across Canada |
| Country Fair | 4 | Ontario |
| McMurray's | 2 | Ontario |
| Robbies | 3 | Ontario |
| | 52 | |

The A & W drive-ins are operated under franchises granted by A & W Food Services of Canada Ltd., Winnipeg, a wholly owned subsidiary of United Fruit Co. in Boston.

Many of the A & W units owned by Controlled Foods are operated under 8 to 12 year old franchise agreements requiring annual royalties of less than $1,000 per store per year. In addition, an A & W franchisee agrees to buy root beer and certain paper products from A & W Food Services of Canada Ltd., and contribute to the national advertising fund.

In March, 1969, there were 207 A & W drive-in restaurants in Canada, which did a combined sales volume estimated at $40 million in 1968.

| Location | Total No. of A & W's | A & W's Owned by Controlled Foods |
|---|---|---|
| B.C. | 43 | 14 |
| Alberta | 37 | 9 |
| Saskatchewan | 17 | -- |
| Manitoba | 18 | -- |
| Ontario | 60 | 18 |
| Quebec | 20 | 2 |
| Maritimes | 12 | -- |
| | 207 | 43 |

A & W Food Services of Canada Ltd. owns about 50 high volume drive-in units, with average sales in 1968 of about $225,000. These units are located in the larger urban areas, including Toronto, Hamilton, Ottawa, Montreal, Winnipeg and Vancouver. The franchised units owned by Controlled Foods and other independent operators have generally been located in smaller urban areas, resulting in average sales volumes a little lower than for the corporate units.

Average sales per unit in 1968 for the 52 drive-in restaurants operated by Controlled Foods (including 43 A & W units) were about $180,000.

Controlled Foods has recently entered into an agreement with A & W Food Services of Canada Ltd., whereby Controlled will have the right to acquire and operate A & W drive-ins and coffee shops in the larger urban markets, including Toronto, Edmonton and Vancouver. Controlled Foods presently operates nine high volume A & W drive-ins in Edmonton, and recently received planning approval for its 10th unit.

Listed below is the current schedule of fees and royalties payable to A & W Food Services of Canada Ltd. by Controlled Foods on new A & W units, should they be opened.

| | A & W Drive-In Restaurant | A & W Coffee Shop & Drive-In | A & W Coffee Shop |
|---|---|---|---|
| Initial Franchise Fee | $2,500 | $4,000 | $4,000 |
| Annual Royalty, based on sales | | | |
| $150,000 or less | $ 700 | 1.75% | 2.25% |
| $150,000 - $200,000 | 1,500 | " | " |
| $200,000 - $250,000 | 2,250 | " | " |
| $250,000 + | 3,000 | " | " |

Profitability of an A & W Drive-In

Many of the A & W units owned by Controlled Foods are earning pre-tax profits equal to a return of 50% to 100% on invested capital. This is particularly true in the case of certain units doing annual volumes of $250,000 or more, in cases where the land and building are leased. See the following table, which indicates how the profitability of a theoretical A & W unit varies with sales volume.

ESTIMATE OF A & W PROFIT MARGINS FOR VARIOUS SALES LEVELS

| | | | | | | |
|---|---|---|---|---|---|---|
| Sales | $150,000 | 100.0% | $200,000 | 100.0% | $250,000 | 100.0% |
| Food cost | 51,000 | 34.0 | 68,000 | 34.0 | 85,000 | 34.0 |
| Labour cost | 45,000 | 30.0 | 56,000 | 28.0 | 65,000 | 26.0 |
| Advertising | 7,500 | 5.0 | 10,000 | 5.0 | 12,500 | 5.0 |
| Other variable cost | 7,500 | 5.0 | 10,000 | 5.0 | 12,500 | 5.0 |
| Fixed costs | 20,000 | 13.4 | 20,000 | 10.0 | 20,000 | 8.0 |
| | 131,000 | 87.4 | 164,000 | 82.0 | 195,000 | 78.0 |
| Profit before Head Office expense | $ 19,000 | 12.6 | $ 36,000 | 18.0 | $ 55,000 | 22.0 |
| Head Office exp. | 9,000 | 6.0 | 11,000 | 5.5 | 12,500 | 5.0 |
| Pre-tax profit | $ 10,000 | 6.6% | $ 25,000 | 12.5% | $ 42,500 | 17.0% |
| Invested Capital (1) | $ 40,000 | | $ 40,000 | | $ 40,000 | |
| % Pre-Tax Profit to Invested Capital | 25.0% | | 62.5% | | 106.2% | |

(1) Assumes a drive-in operation where land and buildings are leased, and equipment costs are $40,000.

In 1969, the Drive-In Division of Controlled Foods opened a Country Fair combination drive-in and coffee shop in Mississauga, Ontario, bringing the total of Country Fair units in operation to five. Recently, the Company made a policy decision to convert these five units to A & W drive-in restaurants, so that they can benefit from the A & W national and local advertising. As mentioned, a new A & W drive-in unit will be constructed in 1969 in Edmonton.

We estimate that pre-tax profits of the Canadian Drive-In Division will be $1,353,000 in 1969, $1,570,000 in 1970 and $1,764,000 in 1971. These projections are based on 53 drive-in units in operation by the end of 1969, plus two additional restaurants each in 1970 and 1971. We also assume that profit margins in this Division will improve slightly each year, due to the steady moderate annual uptrend in average sales per store.

CANADIAN DRIVE-IN DIVISION

Divisional Profit Projection - 1969 to 1971

($000)

| No. of units-yr.end | Actual 1968 | Estimate 1969 | ----Projection----- 1970 | 1971 |
|---|---|---|---|---|
| A & W | 43 | 49 | 51 | 54 |
| Country Fair | 4 | - | - | - |
| Robbie's | 3 | 2 | 2 | 2 |
| McMurray's | 2 | 2 | 2 | 2 |
| | 52 | 53 | 55 | 57 |
| Est. avg. sales/unit | | 200 | 212 | 225 |
| Est. total sales | | $10,200 | $11,448 | $12,600 |
| Cost of sales (34%) | | 3,660 | 3,892 | 4,281 |
| Gross Profit | | 6,540 | 7,556 | 8,316 |
| Labour (29.5%) | | 3,010 | 3,400 | 3,716 |
| Gross earnings | | 3,530 | 4,156 | 4,600 |
| Selling, general & admin. | | 1,884 | 2,242 | 2,451 |
| Operating Profit | | 1,646 | 1,914 | 2,149 |
| Depreciation | | 180 | 214 | 235 |
| Interest | | 113 | 130 | 150 |
| | | 293 | 344 | 385 |
| Pre-tax Profit | | $ 1,353 | $ 1,570 | $ 1,764 |

% to Sales

| | 1969 | 1970 | 1971 |
|---|---|---|---|
| Operating Profit | 16.2% | 16.7% | 17.1% |
| Pre-tax Profit | 13.3% | 13.7% | 14.0% |

**Coffee Shop and Restaurant Division**

Controlled Foods presently owns and operates four free standing restaurants in its Coffee Shop Division. These include a Hickory House unit in Winnipeg, seating 90 persons; a Buffalo Bill Steak Village in Edmonton; a Burger Family Restaurant in Billings, Montana seating 150 persons; and a Country Fare Restaurant in London, Ontario.

Seven additional corporately owned coffee shops are planned for 1969, with single restaurants in Minneapolis, Minn., Vancouver, Winnipeg, and four in Toronto. One Toronto coffee shop will replace a Robbies drive-in unit on a site which is being renovated.

The coffee shops opened by Controlled Foods in future will all be free standing units of a similar design. Management is conducting studies at the present time to determine whether the Company should adopt one tradename such as Hickory House for all its coffee shop restaurants in the U.S. and Canada.

Free standing coffee shop restaurants opened by Controlled Foods in future will be located in heavily populated urban centres, in Canada and the U.S., with populations usually of over 100,000. These units will typically be located on sites of 20,000 sq. ft. or more, provide interior seating for 90 to 125 persons, and parking for up to 35 cars. Annual sales volumes of a coffee shop will range from $300,000 to $500,000. These volumes will be necessary, since capital costs may run as high as $250,000, including $80,000 to $125,000 for land, and $100,000 to $125,000 for building and equipment.

All coffee shops will be limited menu fast food restaurants, featuring hamburgers, hot dogs, french fries, and milk shakes at prices comparable to an A & W drive-in.

Wherever possible, real estate and buildings will be leased or mortgaged to minimize the Company's equity investment per unit.

We estimate that pre-tax profits of the Coffee Shop and Restaurant Division will be $66,000 in 1969, $324,000 in 1970 and $727,000 in 1971. These projections are based on the Company's plan to complete seven restaurants in 1969, and our estimate that a minimum of six new units will be opened in 1970, plus seven new units in 1971. Our sales projections are based on average annual volumes of $300,000, in 1970 and $345,000 in 1971, which we feel are conservative. Our profit projections are based on pre-tax profits equal to 5% of sales in the first year of a new coffee shop, 10% of sales in the second year, and 14% in the third year. See projection.

COFFEE SHOP AND RESTAURANT DIVISION
Projection of Divisional Profit - 1969 - 1971
($000)

| No. of units - year end | Estimate 1969 | ----Projection----- 1970 | 1971 |
|---|---|---|---|
| Hickory House | 7 | 13 | 20 |
| Burger Family | 2 | 2 | 2 |
| Buffalo Bill's | 1 | 1 | 1 |
| Country Fare | 1 | 1 | 1 |
| | 11 | 17 | 24 |
| Est. sales ($300,000 avg) | 1,250 | 4,200 | 7,050 |
| Cost of goods sold (36%) | 450 | 1,510 | 2,554 |
| Gross Profit | 800 | 2,690 | 4,496 |
| Labour (29%) | 363 | 1,219 | 2,040 |
| Gross earnings | 437 | 1,471 | 2,456 |
| Other expenses | 306 | 1,035 | 1,545 |
| Operating Profit | 131 | 436 | 911 |
| Depreciation | 65 | 112 | 184 |
| Pre-tax Profit | $ 66 | $ 324 | $ 727 |

As noted previously, Controlled Foods expects to sell a number of franchises for coffee shops in the U.S. and Canada, when it has a satisfactory franchise package developed. We expect these sales will commence towards the end of our 1969 to 1971 projection period. To be conservative, we have not provided for any income from the sale of coffee shop franchises in our projections.

**Burger Family Inc.**

Controlled Foods holds the patent in the United States for the names and symbols used in the Burger Family merchandising programme, including Papa Burger, Mama Burger and Baby Burger. These patents for the U.S. market are owned by Burger Family Inc., a wholly owned subsidiary of Controlled Foods. The patents for the Canadian market are owned by A & W Food Services of Canada Ltd., a subsidiary of United Fruit Co.

Under limited franchise agreements, Burger Family Inc. has granted the use of these names and symbols to over 1,000 A & W restaurant operators in the United States, who merchandise hamburgers under the Burger Family tradename. Burger Family Inc. has a Wholesale Division which supplies foil bags, seasonings, cups and paper products to these U.S. restaurant operators. Sales from this wholesaleing operation in 1968 amounted to over $1 million.

Burger Family Inc. has a Drive-In Division, which owns and operates four drive-in restaurants in North and South Carolina trading under the "Burger Family" name, plus two A & W drive-in units in South Carolina. Two other Burger Family Drive-Ins in South Carolina are operated under a management contract. A larger coffee shop unit is owned and operated under the "Burger Family" name in Billings, Montana. Average sales of the six corporate drive-in units in the Carolinas were about $140,000 Can. in 1968, and are increasing by 6% to 10% per annum

Two Burger Family Restaurant franchises have been sold to date in 1969, and single stores are under construction in Springfield, Missouri and St. Charles, Missouri.

Sales and profits of the Wholesale Division and the six existing drive-in restaurants in the Carolinas are conservatively projected to increase by 5% to 8% per annum from 1969 to 1971. Actual growth could be faster than this if additional Burger Family Drive-In franchises are sold. We are not projecting any franchise sales from 1969 to 1971, since Controlled Foods' primary emphasis during this period in the U.S. will be on the development of fish and chips stores and coffee shops. See Projection:

BURGER FAMILY INC.
Divisional Profit Projection - 1969-1971
(Can $000)

| WHOLESALE DIVISION | Estimate 1969 | ----Projection----- 1970 | 1971 |
|---|---|---|---|
| Estimated Sales | $1,125 | $1,180 | $1,250 |
| Cost of sales (63.5%) | 710 | 748 | 792 |
| Gross profit | 415 | 432 | 458 |
| Selling, general & admin. | 185 | 190 | 190 |
| Operating profit | 230 | 242 | 268 |
| Depreciation | 5 | 5 | 5 |
| Pre-tax Profit | $ 225 | $ 237 | $ 263 |

| DRIVE-IN DIVISION | | | |
|---|---|---|---|
| No. of units (1) | 6 | 6 | 6 |
| Estimated Sales | 972 | 1,052 | 1,140 |
| Cost of goods sold (40%) | 389 | 420 | 452 |
| Gross Profit | 583 | 632 | 688 |
| Selling, general & admin. | 463 | 501 | 542 |
| Operating Profit | 120 | 131 | 146 |
| Depreciation | 18 | 19 | 20 |
| Pre-tax Profit | 102 | 112 | 126 |
| | | | |
| BURGER FAMILY INC.- DIVISIONAL Pre-tax Profit | $ 327 | $ 349 | $ 389 |

(1) Excludes a Burger Family Restaurant in Montana, which is discussed in this report under the heading "Coffee Shop Division", and two Burger Family Inns in S. Carolina operated under a management contract.

**Chappy's Fish and Chips**

Controlled Foods intends to develop a chain of several hundred franchised English style fish and chips take-out restaurants in the U.S. and Canada, beginning in 1969, trading under the name of "Chappy's". Most stores will be free standing units, with projected annual sales of $150,000 to $200,000.

At the present time, it is estimated that there are 75 companies in the U.S. selling franchise packages for fish and chips take-out stores, with over 400 franchised stores in operation. The most successful franchisor is Salt's Enterprises Inc., of San Rafael, California. Other leading public companies in the field include: Collins Foods; Alfie's; Arthur Treacher's, Friar Fish and Sea Host.

Salt's Enterprises was formed by Haddon H. Salt, a Britisher, in 1965. By 1969, Salt had opened 90 franchised "English Style" fish and chips shops in the western U.S., and sold franchises for 270 additional stores. Most of these units are small "in-line" stores in shopping plazas, with average sales volumes of about $100,000 per store. Salt's Enterprises was recently sold to Kentucky Fried Chicken Corporation for $15 million.

The Wall Street Journal carried an article in its April 7th, 1969 issue which made the following points on the fish industry and its outlook in the U.S.:

1. Per capita consumption of edible fish was 11.0 lbs. in 1968, making a total ot 2200 million lbs. of domestic consumption.

2. Fish sticks and portions account for 270 million lbs. of fish annually, mostly prepared from Cod.

3. Fish eating outside the home is increasing, due to the growing popularity of fish sandwiches and "English Style" fish and chips. Over 500 million fish sandwiches were sold in the U.S. in 1968, versus virtually no sales in 1958.

4. More and more restaurants,both sit-down and take-out units, are specializing in English-Style fish and chips, where filets of fish are coated with a fluffy batter that is lighter than breaded fish.

5. One industry spokesman estimates that fish and chips will out-sell fish sticks in the U.S. market in three to five years.

It is impossible to estimate how many fish and chips restaurants might be opened each year in the U.S. and Canadian market. At a recent Restaurant Association Convention in Chicago, one company official forecast that a total of 20,000 to 30,000 fish and chips restaurants would be opened over a five to seven year period. This projection was based on the fact that there are over 35,000 fish and chips stores in the United Kingdom, where per capita consumption of fish is considerably higher than it is in the U.S.

We conservatively estimate that 500 to 1000 fish and chips take-out restaurants will be opened each year in the U.S. market, and 50 to 100 stores in the Canadian market.

Controlled Foods intends to be one of the five largest franchise operators in the fish and chips take-out business in North America.

A fish and chips take-out store has the following features, as a franchise package:

1. Capital costs are low. The land and building requirements for a free standing Chappy's are about half the size of an A & W drive-in or a coffee shop. Equipment costs are also low.

2. Food costs are low, estimated at about 32% of sales. The chief products sold in a fish and chips shop are fish (usually cod), french fried potatoes and soft drinks.

3. Labour costs are low. These are estimated at 12% to 14% of sales, before the salary of an owner or manager. A free standing Chappy's can generate annual sales of $150,000 to $200,000 with five employees, compared to 15 to 25 employees for an A & W or coffee shop, doing a volume of $200,000.

4. The food products are easy to prepare. Franchisees will usually learn the cooking process and operating methods in a one to two week training period.

Chappy's Enterprises projects that the pre tax profits of a franchise store will be equal to 30% of sales, before providing for the salary of an owner or manager. Note following outline:

CHAPPY'S FISH AND CHIPS - PRO FORMA SALES AND PROFITS

| | FREE STANDING STORE | | IN LINE STORE | |
|---|---|---|---|---|
| Sales | $ 150,000 | 100.0% | $ 100,000 | 100.0% |
| Food cost | 48,000 | 32.0 | 32,000 | 32.0 |
| Paper Cost | 6,000 | 4.0 | 4,000 | 4.0 |
| Labour cost | 18,000 | 12.0 | 14,000 | 14.0 |
| | 72,000 | 48.0% | 50,000 | 50.0% |
| Rent | 12,000 | 8.0 | 6,000 | 6.0 |
| Advertising | 3,000 | 2.0 | 2,000 | 2.0 |
| Royalty | 9,000 | 6.0 | 6,000 | 6.0 |
| Other expenses | 9,300 | 6.2 | 5,700 | 5.7 |
| | 33,300 | 22.2% | 19,700 | 19.7% |
| Pre Tax Profit | $ 44,700 | 29.8% | $ 30,300 | 30.3% |

Controlled Foods estimates that a Chappy's franchisee will be able to get into business for a total cash investment of about $13,000. This includes

| | |
|---|---|
| Franchise Fee | $5,000 |
| Down payment on equipment | $5,000 |
| Working Capital | $3,000 |
| | $13,000 |

The franchisee will also pay an $8,000 development fee, in the case where he purchases a turnkey unit from Controlled Foods.

A Chappy's franchisee can expect to earn a high return on his invested capital, if his restaurant achieves the average sales shown above.

Controlled Foods earns revenues from the following sources, from the sale of a Chappy's franchise:

(a) an initial franchise fee of $5,000
(b) a site development fee, in the case of the sale of a "turnkey package"
(c) a small profit on the sale of the equipment package
(d) a royalty equal to 6% of sales
(e) a small profit on the sale of food and paper products to each franchisee
(f) a small net rental override, from leasing and then subleasing stores to franchisees.

**Chappy's Enterprises of Canada Ltd.**

In Canada, Controlled Foods presently owns and operates one Chappy's free standing take-out restaurant in Winnipeg through Chappy's Enterprises of Canada, Ltd., a wholly owned subsidiary. A second free standing corporate store will open in Winnipeg in July. Plans for 1969 include construction starts on seven additional corporate units, with four in Toronto, two in Vancouver and one in Edmonton.

Management expects to sell 40 franchise turnkey units in Canada in 1969, of which 15 should be open by the end of the year. In 1970 and 1971, the objective is 60 franchise sales in each year, plus five to ten additional corporate stores. Indications are that over 20 franchises will be sold by the end of September, 1969.

The Company intends to control all corporate and franchised stores, through ownership of the land, or by leasing sites and subleasing to franchisees. Wherever possible, the company will mortgage its ownership interest in land and buildings, in order to minimize its equity investment.

We estimate that Chappy's Enterprises of Canada Ltd. will generate pre tax earnings of $315,000 in 1969, $530,000 in 1970 and $767,000 in 1971. These projections are based on opening five corporate stores each year, and franchising 30 stores per year, of which at least 15 will be "turnkey" sales. See Divisional Profit projection:

CHAPPY'S ENTERPRISES OF CANADA LTD.

Divisional Profit Projection - 1969 to 1971
($000)

| Corporate Stores | Estimate 1969 | ..Projection ... 1970 | 1971 |
|---|---|---|---|
| New corporate stores in yr. | 5 | 5 | 5 |
| Total corporate stores - yr. end | 5 | 10 | 15 |
| Est. sales of corporate stores ($150,000 per store) | $250 | $1,100 | $1,800 |
| Cost of sales (32%) | 80 | 352 | 576 |
| Gross Margin | 170 | 748 | 1,224 |
| Operating expenses | 95 | 478 | 790 |
| Operating profit | 75 | 270 | 434 |
| Depreciation | 25 | 50 | 74 |
| Pre-tax profit (20%) | 50 | 220 | 360 |

| Franchise Stores | | | |
|---|---|---|---|
| No. of franchises sold | 30 | 30 | 30 |
| No. of stores open - yr. end | 15 | 30 | 60 |
| Est. sales of franchised stores | 300 | 3,400 | 6,800 |

| Revenue for Chappy's Enterprises | | | |
|---|---|---|---|
| Income from sale of franchises | 350 | 420 | 490 |
| Royalty at 6% | 18 | 204 | 408 |
| Rental income, commissions etc. | 5 | 68 | 136 |
| | 373 | 692 | 1,034 |

| Expenses | | | |
|---|---|---|---|
| National advertising | 18 | 123 | 226 |
| Overhead | 90 | 259 | 421 |
| | 108 | 382 | 647 |
| Pre-tax - franchise stores | 265 | 310 | 387 |
| - corporate stores | 50 | 220 | 360 |
| Pre-tax - Divisional Profit | $315 | $530 | $747 |

**Chappy's Enterprises Inc.**

In the United States, Controlled Foods presently owns and operates one Chappy's free standing take-out restaurant in Columbia, South Carolina through Chappy's Enterprises Inc., a wholly owned subsidiary. A second free standing corporate unit will be built in 1969, in Minneapolis, Minnesota.

The Company's plans are to expand rapidly in the U.S. market, through an Area Franchise Programme. This involves licensing 40 Area Franchisees, each of whom will purchase one Chappy's free standing turnkey restaurant from Controlled Foods. Each Area Franchisee in turn would be obligated, over a four to seven year period, to open up to 40 Chappy's units in his Area. These units may be operated by the Area Franchisee, or sub-franchised to individual operators.

The Company's objectives are to sell 40 Chappy's franchises in the U.S. market in 1969, resulting in the opening of at least 10 turnkey units by the end of the year.

Due to the success of its prototype unit in Columbia, South Carolina, Chappy's Enterprises Inc. has, so far in 1969, sold Area Franchises for North and South Carolina, Georgia, Florida, Texas and Minnesota. Many of the Area Franchisees in the U.S. will be restaurant operators who are already purchasing paper products and equipment from Controlled Foods. As mentioned previously, Controlled Foods Wholesale Division has established trade relations with over 1,000 restaurant operators in the U.S. market.

It is difficult to forecast how quickly Chappy's Enterprises Inc. might expand in the U.S. market through an Area Franchise programme. The Company hopes to sell at least 100 Chappy's franchises each in 1970 and 1971. Most Chappy's take-out restaurants in the U.S. will be free standing units. In keeping with company practice in Canada, Controlled Foods intends to control each real estate site, through ownership of the land, or by leasing and sub-leasing. This programme will involve delays for site approvals, and in order to arrange financing in cases where sites are purchased by the Company.

Chappy's Enterprises Inc. will earn profits on the sale of 40 turnkey units to Area Franchisees, which are comparable to the profits on individual franchise sales projected for Canada. On the subsequent stores opened by U.S. Area Franchisees, Chappy's Enterprises Inc. will earn a $1,000 franchise fee, a four percent royalty instead of six percent, plus income from development fees, sale of equipment, rental over-rides and commissions on food and paper sales to store operators.

We estimate that Chappy's Enterprises Inc. will generate pre-tax profits of $288,000 in 1969, $690,000 in 1970 and $1,085,000 in 1971. These projections are based on opening two corporate stores in 1969 and 10 by 1971, and

CHAPPY'S ENTERPRISES INC.

Divisional Profit Projection - 1969 to 1971
(Can $000)

| Corporate Stores | Estimate 1969 | Preliminary Projection 1970 | 1971 |
|---|---|---|---|
| New coprorate stores in yr. | 2 | 3 | 5 |
| Total corporate stores - yr. end | 2 | 5 | 10 |
| Est. sales of corporate stores ($150,000 per store) | $150 | 750 | 1,200 |
| Cost of sales (32%) | 48 | 240 | 384 |
| Gross margin | 102 | 510 | 816 |
| Operating expenses | 64 | 325 | 535 |
| Operating profit | 38 | 185 | 281 |
| Depreciation | 8 | 35 | 41 |
| Pre-tax profit (20%) | 30 | 150 | 240 |
| **Franchise Stores** | | | |
| No. of franchises sold | 40 | 75 | 75 |
| No. of stores open - yr. end | 10 | 60 | 135 |
| Est. sales of franchise stores | 300 | 5,250 | 15,000 |
| **Revenue for Chappy's Enterprises** | | | |
| Income from sale of franchises | 290 | 425 | 375 |
| Royalty (6% and 4%) | 18 | 285 | 720 |
| Rental income, commissions etc. | 6 | 105 | 300 |
| | 314 | 815 | 1,395 |
| **Expenses** | | | |
| National advertising | 6 | 105 | 300 |
| Overhead | 50 | 170 | 250 |
| | 56 | 275 | 550 |
| Pre-tax - franchise stores | 258 | 540 | 845 |
| - corporate stores | 30 | 150 | 240 |
| Pre-tax - Divisional Profit | $288 | $690 | $1,085 |

on the sale of 40 turnkey franchise packages and 150 non-turnkey franchise packages by 1971. It also assumes that 135 franchised Chappy's take-out restaurants will be in operation in the U.S. by the end of 1971, versus 10 by the end of 1969.

We feel that Chappy's has an attractive and competitive restaurant package, and that the Company will meet or exceed its objectives for the U.S. market in 1969. Investors should note that our projections for 1970 to 1971 are tentative, and subject to wide adjustment, both on the upside and on the downside. It will probably be the end of 1969 before the management of Controlled Foods will know whether the sale of 75 to 100 Chappy's franchises per year in the U.S. is a realistic objective.

## SUMMARY and CONCLUSION

The outlook for the fast food restaurant industry is favourable, due to the trend towards eating-away-from-home.

Controlled Foods has an experienced management team, a history of successful operations, and ample cash flow to finance a programme of expansion.

We recommend the shares of Controlled Foods International Ltd. as a special situation investment, possessing above average potential for capital appreciation over the one to three year term.

See Table I on the following page, which contains our estimate for consolidated sales and profits of Controlled Foods for the period from 1969 to 1971.

Table I

CONTROLLED FOODS INTERNATIONAL LTD.

Consolidated Projection of Sales and Profits

($000)

| Year to December 31 | ....Actual..... 1967 | 1968 | Estimate 1969 | ...Projection... 1970 | 1971 |
|---|---|---|---|---|---|
| Corporate Sales | $10,296 | $11,412 | $13,947 | $19,730 | $25,040 |
| Cost of Goods Sold | 4,138 | 4,473 | 5,337 | 7,162 | 9,042 |
| Gross Margin | 6,158 | 6,939 | 8,610 | 12,668 | 15,998 |
| Operating Expenses | 5,006 | 5,459 | 6,370 | 9,390 | 11,809 |
| Operating Profit | 1,152 | 1,480 | 2,240 | 3,178 | 4,189 |
| Sundry Income | 62 | 53 | 25 | 25 | 25 |
| | 1,214 | 1,533 | 2,265 | 3,203 | 4,214 |
| Deductions: | | | | | |
| Executive Remuneration | 366 | 141 | 225 | 225 | 225 |
| Depreciation & Amortization | 215 | 271 | 301 | 435 | 559 |
| Interest Expense | 90 | 118 | 113 | 130 | 150 |
| | 671 | 530 | 639 | 790 | 934 |
| Pre-tax Profits: | | | | | |
| Corporate Stores | 543 | 1,003 | 1,626 | 2,413 | 3,280 |
| Franchise Operations | - | - | 523 | 850 | 1,232 |
| | 543 | 1,003 | 2,149 | 3,263 | 4,512 |
| Income Taxes | 176 | 383 | 1,138* | 1,730* | 2,390* |
| Tax Credit | - | - | 45 | - | - |
| Net Profit | $367 | $620 | $1,056 | $1,533 | $2,122 |
| No. of Shares o/s (000) | 2,625 | 2,625 | 2,625 | 2,625 | 2,625 |
| Earnings per Share | 14¢ | 24¢ | 40¢ | 58¢ | 81¢ |
| % of Sales | | | | | |
| Cost of Sales | 40.2% | 39.3% | 38.3% | 36.3% | 36.1% |
| Operating Expenses | 48.6 | 47.8 | 45.6 | 47.6 | 47.2 |
| Operating Profit | 11.2 | 12.9 | 16.1 | 16.1 | 16.7 |
| | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

* 53% tax rate, from 1969 - 1971

Table II

CONTROLLED FOODS INTERNATIONAL LTD.

Estimate of Sales and Profits by Division
($000)

| | Estimate 1969 | ... Projection .... 1970 | 1971 |
|---|---|---|---|
| CORPORATE SALES | | | |
| Canadian Drive-In Division | $10,200 | $11,448 | $12,600 |
| Coffee Shop Division | 1,250 | 4,200 | 7,050 |
| Burger Family Inc. | 2,097 | 2,232 | 2,390 |
| Chappy's Enterprises of Can. Ltd. | 250 | 1,100 | 1,800 |
| Chappy's Enterprises Inc. | 150 | 750 | 1,200 |
| | $13,947 | $19,730 | $25,040 |
| GROSS INCOME FROM FRANCHISING | | | |
| Chappy's Enterprises of Can. Ltd. | 373 | 692 | 1,034 |
| Chappy's Enterprises Inc. | 314 | 815 | 1,395 |
| | 687 | 1,507 | 2,429 |
| TOTAL SALES AND OTHER REVENUE | $14,634 | $21,237 | $27,469 |
| PROFITS BEFORE TAX | | | |
| Canadian Drive-In Division | 1,353 | 1,570 | 1,764 |
| Coffee Shop Division | 66 | 324 | 727 |
| Burger Family Inc. | 327 | 349 | 389 |
| Chappy's Enterprises of Can. Ltd. | 315 | 530 | 747 |
| Chappy's Enterprises Inc. | 288 | 690 | 1,085 |
| Profit before Exec. Remun. | 2,349 | 3,463 | 4,712 |
| Add: Sundry Income | 25 | 25 | 25 |
| Deduct: Executive Remuneration | (225) | (225) | (225) |
| TOTAL PROFIT BEFORE TAX | $2,149 | $3,263 | $4,512 |
| % of Profit before Exec. Remun. | | | |
| Canadian Drive-In Division | 57.6% | 45.3% | 37.4% |
| Coffee Shop Division | 2.8 | 9.4 | 15.4 |
| Burger Family Inc. | 13.9 | 10.1 | 8.3 |
| Chappy's Enterprises of Can. Ltd. | 13.4 | 15.3 | 15.9 |
| Chappy's Enterprises Inc. | 12.3 | 19.9 | 23.0 |
| | 100.0% | 100.0% | 100.0% |

**Table III**

CONTROLLED FOODS INTERNATIONAL LTD.

PAST EARNINGS RECORD

($000' s)

| Year to December 31 | 1968 | 1967 | 1966 | 1965 | 1964 |
|---|---|---|---|---|---|
| Sales | $11,412 | $10,296 | $8,479 | $6,297 | $5,444 |
| Cost of Goods Sold | 4,473 | 4,138 | 3,480 | 2,626 | 2,419 |
| Gross Margin | 6,939 | 6,158 | 4,999 | 3,671 | 3,025 |
| Operating Expenses | 5,459 | 5,006 | 3,925 | 2,949 | 2,398 |
| Operating Profit | 1,480 | 1,152 | 1,074 | 722 | 627 |
| Gain on Sale of Fixed Assets | 1 | - | 24 | 7 | 30 |
| Sundry Income | 52 | 62 | 38 | 35 | 32 |
| | 1,533 | 1,214 | 1,136 | 764 | 689 |
| Deductions· | | | | | |
| Executive Remuneration | 141 | 366 | 332 | 210 | 203 |
| Depreciation and Amortization | 271 | 215 | 188 | 140 | 124 |
| Interest - Long Term Debt | 94 | 60 | 56 | 49 | 47 |
| Interest - Other | 24 | 30 | 11 | 17 | 19 |
| | 530 | 671 | 587 | 416 | 393 |
| Net Profit before Taxes | 1,003 | 543 | 549 | 348 | 296 |
| Income Taxes | 383 | 176 | 199 | 129 | 102 |
| Net Profit | $ 620 | $ 367 | $ 350 | $ 219 | $ 194 |
| No. of Shares o/s (000)* | 2,625 | 2,625 | 2,625 | 2,625 | 2,625 |
| Earnings per Share | 24¢ | 14¢ | 13¢ | 8¢ | 7¢ |
| % of Sales | | | | | |
| Cost of Goods Sold | 39.3% | 40.2% | 41.0% | 41.7% | 44.5% |
| Operating Expenses | 47.8 | 48.6 | 46.3 | 46.8 | 44.0 |
| Operating Profit | 12.9 | 11.2 | 12.7 | 11.5 | 11.5 |
| | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

* The number of shares outstanding includes 285,000 shares issued in June, 1969.

**Table IV**

CONTROLLED FOOD INTERNATIONAL LTD.

PRO-FORMA CONSOLIDATED BALANCE SHEET

December 31, 1968

($000's)

| | | | |
|---|---|---|---|
| ASSETS | | LIABILITIES | |
| Current | | Current | |
| Cash | 1,971 | Bank Loan | Nil |
| Marketable Securities | 25 | Accounts Payable | 754 |
| Accounts Receivable | 341 | Taxes payable | 316 |
| Due from Shareholders | 516 | Current Portion of | |
| Inventory | 202 | Long Term Debt | 257 |
| Prepaid Expenses | | | |
| and Deposits | 159 | | |
| | 3,214 | | 1,327 |
| Fixed Assets | | | |
| Land | 832 | Long Term Debt | 1,565 |
| Buildings, Equipment and | | Less Current Portion | 257 |
| Leasehold Improvements | | | 1,308 |
| at Cost | 2,864 | | |
| | 3,696 | | |
| Less Depreciation | | | |
| and Amortization | 943 | | |
| | 2,753 | | |
| Other Assets | | SHAREHOLDERS' EQUITY | |
| Franchises, at Cost | | 2,625,000 shares | 3,447 |
| less Amortization | 535 | Retained Earnings | 444 |
| Deferred finance | | | 3,891 |
| charges | 24 | | |
| | 559 | | |
| | $6,526 | | $6,526 |

**Table V**

**Board of Directors**

| Name | Residence | Principal Occupation |
|---|---|---|
| David Wynn Thomas | Niagara Falls | Chairman of the Board |
| Richard F. Bolte | Winnipeg | President |
| James A. Cox | Winnipeg | Executive Vice-President |
| Kenneth A. Fowler | Stoney Creek Ontario | Vice-President |
| LeRoy E. Fuller | Vancouver | Vice-President |
| Donald J. Dal Bianco | Winnipeg | Treasurer |
| Ray C. Bass | Columbia S. Carolina | Vice-President Burger Family Inc. |
| John T. Burnett | Niagara Falls | Barrister and Solicitor |
| Jerroll R. Johnston | Minneapolis | President Chappy's Enterprises Inc. |
| Joseph C. Murphy | Toronto | Director Burns Brus. and Denton Ltd. |
| Ross J. Turner | Vancouver | Executive Vice-President Neonex International Ltd. |

Appendix I

THE LIMITED MENU FAST FOOD RESTAURANT INDUSTRY
Sales and Expansion Plans of Leading Companies

| | ($000) 1968 Est Ave Sales/Unit | ($ Million) Est Total Sales in 1968(1) | ---No of Units--- Fiscal 1968 | Projected Increase in 1969 |
|---|---|---|---|---|
| UNITED STATES | | | | |
| Kentucky Fried Chicken | $223 | $405 | 2,000 | +400 |
| McDonald's Corp. | 333 | 335 | 1,087 | +200 |
| Dairy Queen | 77 | 263 | 3,500 | +250 |
| A & W International | 94 | 225 | 2,400 | +150 |
| Burger Chef Systems | 201 | 144 | 820 | +100 |
| Burger King | 310 | 102 | 381 | +125 |
| Chicken Delight | 160 | 96 | 650 | +100 |
| Frisch's Restaurants | 326 | 72 | 220 | + 15 |
| Dennys Restaurants | 310 | 52 | 195 | + 55 |
| Arby's Roast Beef | 305 | 45 | 252 | +250 |
| Gino's Inc. | 350 | 43 | 150 | + 60 |
| Red Barn System Inc. | 230 | 40 | 205 | + 44 |
| Lum's Inc. | 153 | 30 | 303 | +300 |
| Sambo's | 340 | 25 | 90 | + 30 |
| Roy Rogers Roast Beef | 260 | 15 | 125 | +100 |
| Henry's Drive-In | 85 | 12 | 142 | + 10 |
| Minnie Pearl's Chicken | 180 | 6 | 75 | +345 |
| | | $ 1,910 | 12,595 | +2,534 |
| CANADA | | | | |
| Kentucky Fried Chicken | $160 | $ 47 | 310 | + 30 |
| A & W Food Services (2) | 200 | 40 | 207 | + 50 |
| Dairy Queen | 75 | 20 | 300 | + 50 |
| Harvey's Foods | 140 | 12 | 80 | + 30 |
| Red Barn | 200 | 7 | 22 | + 30 |
| McDonald's | 360 | 1 | 6 | + 20 |
| Burger Chef | - | - | - | + 32 |
| Minnie Pearl | - | - | - | + 10 |
| | | $127 | 925 | +252 |

(1) Sales estimates include both corporate and franchise units.

(2) Includes sales of 43 A & W units operated by Controlled Foods International Ltd.

Source: Annual Reports and Estimates by Burns Bros. and Denton Limited

THE LIMITED MENU FAST FOOD RESTAURANT INDUSTRY

Average Sales per Store

| | No of Stores | Average Sales (in $000's) 1964 | 1965 | 1966 | 1967 | 1968 |
|---|---|---|---|---|---|---|
| **Established Companies** | | | | | | |
| Lum's Inc. (1) | 303 | NA | NA | $ 119 | $ 140 | $ 153 |
| Kentucky Fried Chicken (1) | 2000 | NA | NA | 180 | 206 | 223 |
| Harveys Foods (1) | 80 | 120 | 125 | 131 | 138 | 140 |
| McDonald's Corp. | 1087 | 215 | 249 | 278 | 297 | 333 |
| Gino's Inc. | 150 | 223 | 253 | 311 | 345 | 350 |
| Denny's Restaurants | 195 | 211 | 234 | 258 | 272 | 310 |
| Burger King | 381 | NA | NA | 276 | 294 | 310 |
| **Recent Underwritings** | | | | | | |
| Collins Foods Internat'l | 56 | 138 | 170 | 199 | 238 | 265 |
| Self Service Restaurants | 20 | 213 | 316 | 338 | 361 | 420 |
| Controlled Foods (2) | 54 | 138 | 142 | 153 | 164 | 180 |
| Sambo's | 90 | 301 | 308 | 330 | 323 | 340 |
| Kenflo Corporation | 21 | 180 | 197 | 237 | 244 | 272 |
| Frisch's Restaurants | 220 | NA | NA | 319 | 321 | 326 |
| Red Barn (Canada) | 25 | NA | 150 | 163 | 168 | 200 |

(1) Sales/unit figures are estimates, based on company and trade comments.

(2) Sales/unit figures for Controlled Foods are for the drive-in units in Canada only.

Source: Annual Reports of Individual Companies

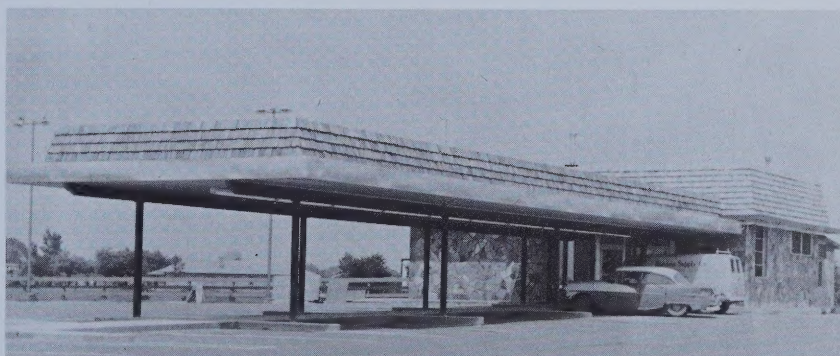
# THE LIMITED MENU FAST FOOD RESTAURANT INDUSTRY

## Comparison of Leading Companies

| | Where Traded | Fiscal Yr End | -----Earnings per Share (Actual)------- 1964 | 1965 | 1966 | 1967 | 1968 | Projected 1969 | 1964/68 Ann Growth Rate |
|---|---|---|---|---|---|---|---|---|---|
| Established Companies | | | | | | | | | |
| Lum's Inc. | OTC | July 31 | .04 | .13 | .31 | .94 | 1.09 | 2.40 | 129% |
| Kentucky Fried Chicken | NYSE | Sept 30 | .03 | .10 | .23 | .42 | .78 | 1.20 | 125% |
| Harvey's Foods | TSE | Mar 31 | .08 | .13 | .14 | .26 | .35 | .45 | 46 % |
| McDonald's Corp. | NYSE | Dec 31 | .44 | .74 | .89 | 1.18 | 1.65 | 2.10 | 40% |
| Gino's Inc. | OTC | Dec 31 | .15 | .20 | .24 | .35 | .55 | .80 | 39% |
| Denny's Restaurants | NYSE | June 30 | .23 | .34 | .37 | .43 | .60 | .90 | 27% |
| Recent Underwritings | | | | | | | | | |
| Collins Foods International | OTC | April 30 | .07 | .11 | .28 | .55 | .80 | 1.20 | 81% |
| Self Service Restaurants | OTC | Dec 31 | .01 | .13 | .20 | .31 | .52 | .70 | 58% |
| Controlled Foods International | OTC | Dec 31 | .07 | .08 | .13 | .14 | .24 | .40 | 34% |
| Sambo's | OTC | Dec 31 | .23 | .34 | .60 | .59 | .68 | .90 | 32% |
| Kenflo Corporation | OTC | Oct 31 | .15 | .22 | .35 | .40 | .38 | .65 | 26% |
| Frisch's Restaurants | OTC | May 30 | 1.33 | 1.63 | 1.87 | 1.89 | 2.08 | 2.10 | 12% |

Source: America's Fastest Growing Companies
The Financial Post
Annual Reports

A & W Drive-In Restaurant,
Niagara District, Ont.





Country Fair Drive-In Restaurant, Mississauga, Ont.

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